

## 6549.0 - A Framework for Household Income, Consumption, Saving and Net Worth, 1995

Latest ISSUE Released at 11:30 AM (CANBERRA TIME) 06/06/1995

## Summary

### About this Release

Conceptual framework describing the contents, boundaries and conceptual links between household income, consumption, saving and changes in net worth. Provides definitions and classifications of components. Shows links with other conceptual frameworks such as national accounts.

This publication has been converted from older electronic formats and does not necessarily have the same appearance and functionality as later releases.

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## Preface

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1. This publication defines a conceptual 'map' relating data in the fields of household income, consumption, saving and wealth, and as such provides a basis for improved understanding of the issues involved in collecting and relating such data. It also lays the foundation for further development of statistics relating to the economic well-being of households and should enable better dialogue between users and producers of statistics, nationally and

internationally.

2. A Provisional Framework for Household Income, Consumption, Saving and Wealth (ICW) is a first attempt by the ABS at providing a consistent and integrated outline of the economic resources available to households and a description of the concepts, definitions and classifications needed when attempting to measure economic well-being. The description is designed to be internally consistent in respect of individual households but also to relate concepts at the household level with those at a national level. The framework has not been restricted to existing measures but discusses new measures suggesting possible definitions and classifications. Future versions of the framework will reflect continuing changes in international guidelines relating to such areas as household income and expenditure statistics, national accounts and statistics of labour income. They will also reflect ongoing discussion within the ABS and the user community.

3. In developing this framework, the ABS has drawn on related ABS standards and on frameworks published by several international organisations. The international standards used include the Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households (UN 1977), the System of National Accounts 1993 (prepared under the auspices of the Inter-Secretariat Working Group on National Accounts with representatives of the United Nations, Commission of the European Community, International Monetary Fund, and the Organisation for Economic Co-operation and Development) and various recommendations published by the International Labour Organisation since the early 1970s. A detailed comparison of components of the ICW framework and components of the Australian National Accounts and the System of National Accounts (SNA93) is contained in an appendix. Codifying the linkages it identifies between macro and micro income, consumption, saving and wealth data is a necessary prerequisite to the future development of social accounts for Australia.

4. We would welcome your comments on the concepts, definitions and classifications described in this framework, and they should be addressed to:

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## Glossary

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**Actual final consumption** - comprises consumption of goods and services purchased in the market place, consumption of goods and services received as in-kind receipts, and consumption of services provided from within the household. Excludes current transfers outlaid.

**Assets** - property of a financial or non-financial nature, owned by the household, and from which economic benefits may be derived by holding or use over a period of time. See Financial assets and Non-financial assets.

**Capital transfers outlaid** - the transfer of ownership of an asset by the household to another household, private institution, charitable organisation or government.

**Capital transfers received** - receipts which involve the transfer of ownership of an asset from a household, government or private organisation to the recipient household.

**Compulsory fees** - compulsory payments made by households to government that are associated with regulatory functions of government or the granting of a permit or privilege.

**Consumer durables** - household items which are deemed to provide continuous or repeated use over a period of at least one year.

**Consumption** - the 'using up' of services and non-durable consumer goods, i.e. those that have a single use or an otherwise limited life of less than one year. (See household consumption.)

**Current transfers outlaid** - comprise cash and goods purchased in the period and disbursed by the household to government, to other households, to private institutions or to charitable organisations for consumption by those other entities. Excludes direct taxes.

**Dependent child** - any person under 15 years of age or any full-time student aged 15-24 years who has a parent or guardian in the household and is neither the spouse nor parent of anyone in the household.

**Depreciation** - the value of capital consumed in the productive activity. Depreciation allowance is the amount allowed by the Australian Taxation Office for depreciation.

**Direct taxes** - compulsory unrequited transfers made by households to government.

**Dissaving** - negative saving during the reference period which derives from the running down of assets or the incurrence of a liability in order to finance current consumption, current transfers or direct taxes.

**Dividends** - income received from investments in corporate equities, such as ownership of shares.

**Employee income** - employee earnings i.e. 'remuneration in cash and in kind paid to employees, as a rule at regular intervals, for time worked or work done, together with remuneration for time not worked such as for annual vacation, other paid leave or holidays' (ILO 1971). Also includes employer contributions to superannuation funds.

**Employees** - persons working for an employer or working for their own corporate enterprise (limited liability company).

**Employer contributions to superannuation funds** - premiums paid by an employer direct to a superannuation or pension funds on behalf of the employee.

**Entrepreneurial income** - is the profit or loss that accrues to persons or households as owners of, or partners in, unincorporated enterprises. The measure is net of operating expenses and depreciation allowance.

**Family** - two or more related people, who usually live together. One of these people must be at least fifteen years of age. The term **related** applies to relationships of blood, marriage (registered or de facto), adoption, step or fostering.

**Final consumption expenditure** - the 'using up' of services and non-durable goods that are acquired in the market place in return for money and have been purchased during the reference period.

**Financial assets** - stocks that entitle their owners (the creditors) to receive a payment from the other unit (the debtor) in certain circumstances. Also includes cash holdings.

**Fines** - compulsory payments made by households as a result of civil or criminal penalties imposed on law breakers. They exclude fines and penalties imposed by taxation authorities which, for practical reasons, are treated as part of direct taxes.

**Household** - one person living alone or a group of people who usually reside and eat together. Includes boarders but excludes lodgers who form a separate household.

**Household consumption** - comprises actual final consumption (consumption of goods and services purchased in the market place, consumption of goods and services received as in-kind receipts, and consumption of services provided from within the household) and current transfers outlaid. Excludes direct taxes, compulsory fees and fines.

**Imputed rent from owner-occupied dwelling** - the imputed value of the services of (mainly) shelter provided to the household after deduction of expenses and depreciation.

**Income** - those receipts (in cash and in-kind) that are of a regular and recurring nature, and are received by the household or its members at annual or more frequent intervals. Includes regular receipts from employment, own business and from the lending of assets; transfer income from government, private institutions and other households; the value of services provided from within the household via the use of an owner-occupied dwelling, other consumer durables owned by the household, and unpaid household work. Excludes intra-household transfers and receipts derived from the running down of assets or from the incurrence of a liability.

**Income in-kind** - regular and recurring receipts obtained by the household in forms other than money. They comprise goods and services resulting from market exchange and services resulting from non-market exchange.

**Income unit** - one person, or a group of related persons, within a household, whose command over income is shared. The relationships allowed for in the definition of income unit are restricted to those of marriage (registered or de facto) and of parent/dependent child.

**In-kind consumption** - the 'using up' of goods and services that are acquired from outside the household without the intervention of money, and services provided from within the household.

**Interest** - comprises receipts from deposits (including term deposits) with banks, building societies, credit unions, and other financial institutions; from government bonds/loans and securities, debentures, and from personal loans to others outside the household.

**Liabilities** - are defined as all moneys a household owes to government, private institutions or other persons outside the household.

**Negative income** - the loss accrued by an unincorporated enterprise when the operating expenses and depreciation are greater than the gross receipts.

**Net acquisition of non-financial assets** - acquisition (through purchase or transfer) minus disposal (through sale or transfer) of non-financial assets held by the household and unincorporated enterprises owned by the household.

**Net disposable income** - gross income minus direct taxes, compulsory fees and fines.

**Net lending** - the excess of net acquisition of financial assets over the net increase in liabilities during the reference period.

**Net worth** - the difference between a household's stock of assets and its stock of liabilities at a point in time. Excludes human capital.

**Nominal holding gains/losses** - gains/losses that accrue to the value of assets and liabilities during the reference period that are not due to either transactions or other volume changes.

**Non-durable consumer goods** - goods deemed to have a single use or otherwise limited life of less than one year.

**Non-financial assets** - those assets, other than financial assets, that have a lifetime of more than one year. They may be produced or non-produced, tangible or intangible.

**Notional wealth annuity** - the transformation of the value of a household's stock of assets/liabilities into a right to be paid a (notional) fixed annual sum of money for a defined lifetime.

**Operating expenses** - comprise all expenses involved in the running of an unincorporated enterprise including interest, rent and indirect taxes.

**Other current transfers** - all current transfers in cash or in-kind, other than those paid out under government social security and related schemes.

**Other government in-kind transfers** - indirect benefits provided by government spending other than those that paid out under the social security and related schemes. Excludes spending on 'collective services' such as public administration and defence.

**Other non-market income** - the imputed value of services, similar to those available for purchase/hire, that are consumed by the household and provided from within the household.

**Other pensions and benefits** - all pensions and regular superannuation payments that are made other than under the government's social security and related schemes.

**Person** - is defined as everybody in their capacity as private individuals. It includes individuals as owners of, or partners in, unincorporated enterprises.

**Primary income** - receipts accruing in cash or in-kind in the current reference period to employees and self-employed persons by virtue of the deployment of their labour and entrepreneurial capacity in productive activity. In-kind receipts are measured as an imputed cash equivalent.

**Privately funded superannuation schemes** - those funds to which contributions are made by either the individual members or by their employer on the employee's behalf. In contrast to government social security pension schemes which are funded from general revenue.

**Profit/loss** - of unincorporated enterprises owned by households consists of the value of the gross output of the enterprise after the deduction of operating expenses and the value of depreciation of assets used in production.

**Property income** - net receipts accruing in the current reference period as a result of ownership of assets.

**Rent** - receipts (after deducting operating expenses) from property other than owner-occupied dwellings. It includes

income from lodgers and from others who are sub-letting parts of the dwelling, but excludes income from boarders who are counted as members of the household. Rent includes that rent received by unincorporated enterprises where it is not included as entrepreneurial income.

**Royalties** - payments for the use of patented or copyright materials.

**Saving** - that part of current income (after direct taxes) that is not directly used up or transferred as part of household current consumption. Saving may be positive or negative (dissaving) during any reference period.

**Services provided from within the household** - the services provided by use of household non-financial assets (owner-occupied dwelling and consumer durables) and by unpaid household work.

**Social security pensions, benefits and allowances** - regular, recurring cash receipts paid by government to persons, families or households under social security and related government programs.

**Social security in-kind concessions** - all in-kind transfers received by persons, families or households in special eligibility categories such as recipients of social security and other related benefits, aged persons and students.

**Superannuation fund** - any fund, association or organisation set up for the purpose of providing a financial benefit to members when they retire from work.

**Transfer income** - regular and recurring receipts, in cash or in-kind, other than those derived from primary or property income. They do not involve a 'quid pro quo' - e.g. a return for labour, or a return for use of assets.

**Unfunded superannuation schemes** are - schemes (usually run by government employers) in which employers pay retirement benefits to their employees, ex-employees or their dependents out of their own resources without creating a fund.

**Value of services provided by household consumer durables** - the imputed value of services provided by household items that are deemed to provide continuous or repeated use over a period of a year or more. Net of depreciation on consumer durables.

**Value of unpaid household work** - the imputed value of non-market uses of household time that result in the production of a good or service that could be purchased in the market.

**Wealth** - see Net worth

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## Chapter 1. Introduction

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### A conceptual framework

1.1. A Provisional Framework for Household Income, Consumption, Saving and Wealth (ICW) has been developed by the ABS to describe how the range of flows and stocks of household economic resources can be brought together to provide a comprehensive measure of economic well-being for individual households. The paper sets out detailed descriptions of the contents, scope, boundaries and conceptual links between each component of the framework.

1.2. The paper also provides a conceptual link between these components of individual household economic well-being and those of the national economy as a whole. This is presented in Appendix 1 which compares the concepts and definitions used in the ICW with those used in the Australian National Accounts and in the international System of National Accounts (SNA93).

1.3. Where appropriate, the concepts and terminology used in the ICW framework are consistent with those used in the national accounts. However, because the focus of the ICW is on the individual household rather than the aggregated household sector, concepts, definitions and terminology have been modified where necessary.

### Purpose of the framework

1.4. Within the broad purpose of measuring economic well-being, the framework is designed to allow for the

measurement of:

- a household's power or command over economic resources;
- the extent to which a household is able to both consume and accumulate wealth and to make choices between these options; and
- the changes that take place in a household's economic well-being over time.

1.5. Together, these measures constitute a model that reconciles the several elements of income, consumption and net worth at the individual household level. Such a reconciliation will enable the derivation of measures of both household saving and total accumulation of wealth.

1.6. It is envisaged that the development of this framework will provide the following benefits:

- allow for the provision of conceptually consistent information and the illustration of the relationship between the components of household income and consumption flows;
- allow ABS clients and policy makers to place important, but limited, data available in the context of the full picture of household economic resources;
- encourage the development of imputation techniques, within and outside the ABS, for some of the missing data;
- facilitate discussions between the ABS and clients on priorities for future development of ABS collections;
- ensure that future collection and processing procedures used in the ABS follow consistent conceptual and classificatory practices; and
- facilitate the development of improved linking between national economic aggregates (macro data) and household surveys (micro data) on the income, consumption and accumulation of households.

1.7. While occasional mention is made of operational considerations, the publication does not attempt to provide guidance on how the concepts should be operationalised in data collections and imputations. It does not discuss issues such as methods of valuation of imputed items which will be the subject of further research both within and outside the ABS.

1.8. Similarly, the publication does not attempt to set priorities for the collection of the different data items that go to make up the measure of economic-well-being. The setting of such priorities will be taken in conjunction with ABS clients.

## **Structure of the report**

1.9. The report is divided into two major parts. Part A (Chapters 1-6) presents the framework model. In Chapter 2 the underlying concepts and scope of the main components are described. This chapter also discusses links with other statistical frameworks such as the SNA, its Australian counterpart the ANA, and the ILO framework to ensure comparability wherever practicable.

1.10. Chapter 3 describes the flows and stocks used to measure economic well-being, and develops a model which links these together. Chapter 4 and Chapter 5 provide the definitions and descriptions of the main elements of these flows and stocks and Chapter 6 presents summary measures of economic well-being.

1.11. Chapters 7-18 provide detailed definitions and classifications of all components of the ICW framework. An appendix is attached which covers comparison of the ICW framework with the ANA and SNA93 (Appendix 1) and a bibliography (Appendix 3). The Glossary (Appendix 2 in the paper publication) has been placed in front of this topic for ease of access.

## **Chapter 2. Scope and main components of the ICW framework and**

# international standards

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## Introduction

2.1. The ICW framework has been developed to describe, and provide links between, the factors that make up the economic well-being of the household. In the past, the models provided in international standards have often been limited to flows of cash income and some restricted elements of income in-kind, usually those obtained via the market place. Consumption has similarly been limited to the using up of these resources. In the ICW framework, the concept of income has been broadened to support a more comprehensive measure of economic well-being which takes into account household transactions that have been neglected in the past.

2.2. One of the main restrictions of current international guidelines has been that they tended to view the household purely as a consumption unit. The household received income, consumed some of it in satisfying its wants and, at times, saved some of the income for the future. In the ICW framework, a more complex picture of the household is developed which presents it not only as a unit of consumption but also as a unit that produces goods and services for its own consumption without any intervention from the market place.

## Economic well-being

2.3. Economic well-being is determined by all economic resources available to the household. It encompasses the household's access to goods and services through its current income and its capital receipts whether they are received in cash or in-kind. It also includes the notional dissaving value of the household's net stock of assets and liabilities, otherwise referred to as the household's net worth. Economic well-being can be viewed either from the receipts side i.e. the household's capacity to consume and save, or from the consumption side i.e. the household's actual consumption and its method of financing this consumption.

## Income

2.4. The concept of income is very broad and includes components that may not usually be included in common usage of the term. For our purposes, income consists of receipts, as money or in-kind, that are received or accrued regularly and are of a recurring nature. Income may accrue from a wide range of sources both from outside and within the household itself.

2.5. The notion of receipts being regular and recurring is adopted from the ILO definition of income and is used to distinguish between capital receipts and those ongoing receipts that most households come to depend on for their day-to-day living. For most households it is these ongoing receipts (and the expectation of their continuance) that is the main predictor of the household's consumption.

2.6. Cash income may be generated through involvement in economic production, either within the market economy or outside it. This form of income is received for contributing the factors of production (labour, capital assets and knowledge) to the national economy. The concept of income also includes transfer incomes. These can be received as benefits from government (e.g. government pensions and benefits), from other households (e.g. gifts, child support), and from other private organisations.

2.7. Non-cash income similarly covers income-in-kind from the above sources. It includes non-cash benefits received by employees and by owners of small businesses. It includes non-cash government benefits directed to pensioners and beneficiaries and directed to the broader population groups in the form of government expenditure on services such as health, housing, welfare, etc.

2.8. In addition, non-cash income in the ICW includes the value of the production of goods and services provided by the household to itself. Households produce for their own consumption services such as child care and cooking as part of their unpaid household work. They also provide services deriving from the ownership of assets such as the family home and household durables such as car, refrigerator and the like.

## Consumption

2.9. The concept of consumption is based on the 'using up' of services and non-durable goods. In addition to final consumption expenditure, where households purchase non-durable goods and services, it also covers consumption of goods and services received in-kind from government, other households and private organisations. It also includes the using up of goods and services provided from within the household. This concept of consumption is therefore much broader than one which is based solely on the current consumption expenditure of the household in the market place.

2.10. Also included in the concept of consumption is the transfer of economic resources from one household to other households and private institutions such as charities. The transfers may be compulsory, such as some child support payments or voluntary such as gifts of money or goods. (Transfers of economic resources to government in the form of direct taxes and compulsory fees and fines are treated separately from consumption.)

## **Net worth**

2.11. Net worth is defined as the difference between the household's stock of assets and its stock of liabilities at a particular point in time. The concept of assets covers both financial and non-financial assets, including all consumer durables owned by the household. The concept of liabilities covers all debts owed by the household whether they be to other households, private institutions or government.

2.12. It could be argued that assets should also include the value of human capital held by the household such as the education and skills of its members. For practical reasons, however, these are excluded from the concept of net worth in this framework. (See Permanent income and lifetime earnings)

## **Statistical units**

2.13. The main counting or statistical units which have relevance to the concepts of income, consumption and wealth are persons, income units, families and households. These units are defined in Chapter 7.

2.14. Although information about individuals or persons is often used to analyse aspects of social welfare, it is not always an appropriate unit when analysing income and consumption data for purposes of measuring economic well-being. An individual may be the preferred statistical unit when analysing, for example, the relationship between earnings and educational attainment. However, for analysing the distribution of income it is usually more meaningful to group people according to the way income is commonly shared within, say families, to form single spending units. For that reason the appropriate statistical unit is often the family or a subset of the family such as the income unit.

2.15. When looking at consumption, it is generally the household that is the smallest unit for which measures of consumption can be made. Except for some items of personal spending, consumption mainly reflects the collective decisions of individuals within the household who share, or live together, in the dwelling and who make common provisions for shelter, food and other essentials such as heating.

2.16. Consequently, the household (including any unincorporated enterprises owned by the household) is the smallest unit for which measures of saving and net worth can be constructed when analysing economic well-being. For this reason, the household is adopted as the default statistical unit in the ICW framework. (See paragraphs 7.4-7.6 for discussion and illustration of unincorporated enterprises owned by the household.)

## **International standards**

2.17. In the development of the ICW framework, the ABS has drawn on related frameworks published by a number of international organisations. The United Nations has provided two frameworks dealing with income, consumption and wealth. The most recent of these is the System of National Accounts 1993 (SNA93) - published under the auspices of the UN and other international organisations. This System of National Accounts describes the economies of countries and the linkages between the main components.

2.18. An earlier framework provided by the UN is a set of provisional guidelines devoted to the collection of data at the micro level and relating to economic resources of households (UN 1977 and 1989). The ILO has also issued guidelines and recommendations for the collection of data on income of households, with particular emphasis on income from employment (ILO 1971, 1992 and 1993). (A brief description of the main orientation of relevant work by international organisations is set out below.)

2.19. These international frameworks are not fully harmonised. The ABS has drawn selectively from them in developing the ICW framework which has adopted a broader scope than that adopted in the international guidelines. Where necessary, the ICW has diverged from one or more of the international standards in creating an internally consistent framework designed to facilitate the balancing of accounts at the individual household level and to meet Australian needs.

## **United Nations guidelines**

2.20. In 1977, the United Nations published its Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households (Studies in Methods, Series M, No 61). These guidelines have since been used by many countries as a conceptual basis for the development and improvement of statistics in this field. A later publication by the United Nations (1989) has added more detail on the application of these concepts in household surveys.

## The System of National Accounts (and the Australian National Accounts)

2.21. A second framework that has had significance for the development of the ICW is the UN System of National Accounts (SNA 1968 and 1993) and its Australian counterpart, the Australian National Accounts (ANA). The system of national accounts integrates and links the definition and classifications of all economic flows and stocks into a coherent structure. It describes and measures the economic well-being of the country as a whole. It does this via the study of key economic flows such as production, income, consumption, investment and saving.

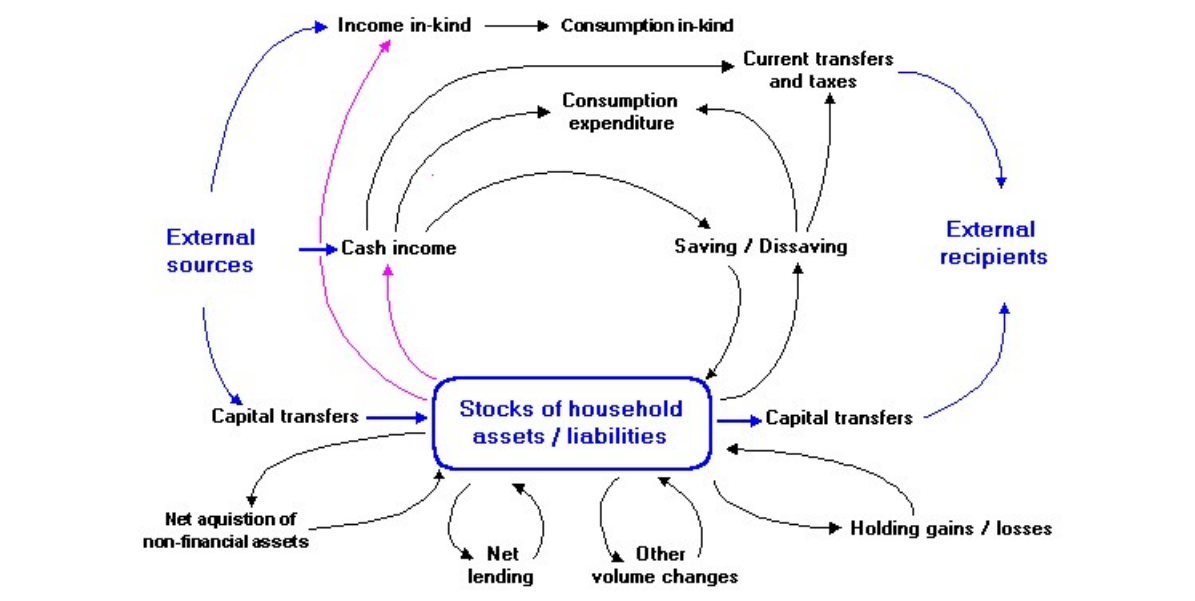
2.22. Attempts to increase coherence between the ICW framework and the ANA have also been affected by the release of the revised SNA in 1994 while work was in progress on the ICW framework. At present the ABS is still making decisions on the implementation of different components of the SNA93 in the ANA. The SNA93 has been taken into account in the development of the ICW but the two are not fully reconciled. Further work on implementation of SNA93 in the Australian System of National Accounts will be taken into account in future versions of the ICW. For a detailed comparison of the components of the ICW with the current ANA and SNA93 see Appendix 1.

## International Labour Organisation

2.23. The International Labour Organisation has also contributed to the development of theoretical concepts in this field. In particular, the ILO has described itself as being 'concerned with policies, norms, measurements and the study of trends relating to living and working conditions.' (ILO 1971). The ILO framework was set out in its 1971 publication *Scope, Methods and Uses of Family Expenditure Surveys*, The Twelfth International Conference of Labour Statisticians, Report III.

2.24. More recently, at the Fifteenth International Conference of Labour Statisticians in Geneva in 1993, the ILO opened up discussion on the concepts and measurement of income from employment in light of the changes that have taken place in the labour market over the last decade. In particular, discussion is continuing on the effect of structural changes in the labour market on forms of employment and the nature of remuneration. A discussion is contained in reports of the conference. (ILO 1992 and 1993).

## 2.1. HOUSEHOLD ECONOMIC RESOURCES - MAJOR FLOWS

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## Chapter 3. Structure of the ICW - a stock flow model

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## Receipts and disbursements

3.1. Within a given reference period a household experiences continuous flows of receipts and disbursements relating to economic resources. Receipts include regular receipts (e.g. wages and salaries, interest earned by

assets), irregular receipts (e.g. an inheritance), flows generated by selling an asset (such as a car) and income in-kind (e.g. use of a car provided by an employer).

3.2. Disbursements may be equally diverse. They include expenditure on consumer goods (e.g. food), purchase of consumer durables (e.g. a car), saving (e.g. cash deposited in the bank), gifts to relatives, and tax to the government.

3.3. Together, these receipts and disbursements determine not only a household's standard of living but also its level of wealth. 'Living well' and 'getting rich' are the indicators used in everyday life to define economic well-being. These indicators also form the basis of the measure of economic well-being in the ICW framework.

## **Stock/flow model**

3.4. To formally describe the components of economic well-being identified above, and to map their relationships, a stock/flow model has been developed.

3.5. The model relates flows of income over a given reference period to flows of consumption and saving. This is done within a current account, which notionally can be constructed for each household.

3.6. Saving and dissaving flows and capital transfers are reconciled to a measure of change in net worth, resulting from transactions, in a capital account.

3.7. The current and capital accounts are linked by the flows of saving and dissaving, the former building up and the latter running down the stock of household net worth.

3.8. The transactional change in net worth, as measured in the capital account, is added to changes in stocks resulting from other changes in volume of assets and nominal holding gains or losses in the third account called other changes to stocks account. This final measure gives total change in net worth for the individual household during the reference period.

3.9. The current account therefore measures the 'living well' aspect of the economic well-being of households. The capital account and other changes in stocks account measure the 'getting rich' aspect of economic well-being.

## **Flows**

3.10. Most flows are transactions - i.e. they are interactions between two units by mutual agreement or they are interactions within the same unit that is operating in two capacities.

3.11. For example, an interaction takes place between two units when wages or salaries are paid to an employee as a return for his/her labour. Similarly, an interaction takes place by mutual agreement between two parties when a household purchases goods and services for consumption.

3.12. An interaction within the same unit takes place when, for example, a household produces goods or services for its own consumption. In this instance, the household operates as both the producer and the consumer.

3.13. Transactional flows reflect the receipt and disbursement of all economic resources in households. They reflect the receipt of income in cash or in-kind, disbursements by way of consumption or transfers out of the household, and capital transactions.

3.14. There are other flows that are not transactions. These flows are dealt with in the account dealing with other changes in stocks and relate to changes in the volume of stocks brought about by, e.g. catastrophic events, and changes brought about due to nominal holding gains and losses.

## **Stocks**

3.15. The term stocks describes a household's holdings of assets and/or liabilities at a given point in time. The value of these stocks is affected by all of the flows described above.

## **Reference period**

3.16. A reference period is required for measuring flows of income and consumption and the changes in the stocks of assets and liabilities that take place over time.

3.17. A number of factors can influence the choice of a reference period. These include:

- the influence of seasonal factors on income and consumption; and
- requirements of policy makers and analysts (e.g. 'current weekly' income, annual income, lifetime

income).

3.18. At an operational level, other factors also take on importance:

- payment conventions (e.g. daily piece work, fortnightly salary, monthly pension, annual profit);
- the need to have enough events in the sample;
- the problem of respondent recall.

3.19. To achieve a full reconciliation of the elements of the ICW framework, all contributing data need to relate to the same reference period. For purposes of exposition, this paper adopts a reference period of one year.

## Current and capital accounts

3.20. For the ICW framework, a book-keeping approach is adopted which uses a Current account, a Capital account and an Other changes to stocks account to describe the diverse flows of household budgeting and to ensure a balancing of the household books.

3.21. The current account deals with the relationship between income, consumption, direct taxes and saving. The capital account deals with the capital transactions that result in a building up or running down of assets and liabilities via transactions. The other changes in stocks account deals with changes in the volume of stocks that are not related to transactions, and changes to the value of stocks from capital gains or losses.

3.22. Chapter 4 and Chapter 5 describe the relationships between the transactions and other flows and the main components of the accounts.

### 3.1. ICW CURRENT AND CAPITAL ACCOUNTS

3.1.1 Current Account	
<b>Disbursements</b>	<b>Receipts</b>
	1. Primary income
	2. Property income
	3. Transfer income
	4. Other non-market income
	5. Total household income
5. Total household income	
6. Direct taxes, fees and fines	
7. Net disposable income	
	7. Net disposable income
8. Consumption	
9. Saving	

3.1.2 Capital Account	
<b>Disbursements</b>	<b>Receipts</b>
	9. Saving
	10. Depreciation allowance
	11. Net capital transfers received
12. Net acquisition of non-financial assets	
13. Net lending	

### 3.2. ICW OTHER CHANGES IN STOCKS ACCOUNT

Changes in assets	Changes in liabilities
<b>Other changes in volume:</b>	
14. Non-financial assets	
15. Financial assets	16. Liabilities
<b>Nominal holding gains/losses:</b>	
17. Non-financial assets	
18. Financial assets	19. Liabilities

## Chapter 4. The current account

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### Overview

4.1. The current account is anchored to the notion of a household 'consuming' over a defined reference period. Consumption is a necessary activity in the sense that a household has needs and wants, the satisfaction of which is a condition of its existence (e.g. household members have to eat to stay alive). The definition of the household reflects this - i.e. a household comprises persons 'who make common provision for food or other essentials for living' (see Chapter 7).

4.2. Given this consumption, it is relevant to ask how it is to be 'financed'. What power or command over economic resources does the household have that will allow it to consume?

4.3. The need for some power or command over resources gives rise to the notion of a flow of income. This is usually thought of as a flow of cash income resulting from a contract or claim. It might be income from an employer/employee contract involving a wage as a return for work done or it might be a claim for a government pension.

4.4. However, as noted above, a household may be in receipt of income in forms other than cash receipts. For example, non-market activities such as unpaid household work generate an income-in-kind. One of the main tasks in developing a comprehensive measure of economic well-being has been to expand the definition of household income to cover a range of other receipts which significantly affect a household's capacity to consume and save.

4.5. Both gross income receipts and net income after compulsory direct taxes are paid to government are therefore measured in the framework.

4.6. The fourth component of the current account, i.e. saving, is a deferral of consumption in order to either create assets or reduce a previously incurred liability. As with consumption, saving requires income for its realisation.

4.7. The power over economic resources and the propensities to consume and save are therefore in a dynamic relationship. The extent of a household's power over economic resources limits its capacity to consume and save.

4.8. Where a household is unable to, or chooses not to, meet its consumption needs from its regular income sources it may decide to dissave (run down assets or incur a liability).

### Current account dynamics

4.9. An understanding of the relationships between the diverse flows in the current account is crucial to the formulation of a measure of economic well-being.

4.10. Formally, and in very simplistic terms, income (Y), consumption (C), direct taxes (T) and saving (S) may be expressed in a current account by the equation:

$$Y = C + T + S \text{ where}$$

**Y** comprises all regular, recurring receipts (before the intervention of taxation);

**C** comprises current consumption of non-durable goods and all services;

**T** comprises direct taxes, compulsory fees and fines, and

**S** comprises the difference between **Y** and **(C + T)**.

4.11. In a strict accounting convention using an 'income and outlay account', income equates to current receipts; consumption, direct taxes and saving equate to current disbursements (see Table 3.1). Current receipts (Y) will always equal current disbursements (C + T + S) in the reference period.

4.12. Gross income can be replaced by an alternative measure of a household's regular resources available for consumption by deducting direct taxes from the receipts side of the accounts to produce a measure of disposable income. This disposable income (y) is then defined as:

$$y = Y - T = C + S.$$

4.13. These measures of gross and disposable income will be useful for different analytical purposes.

4.14. Disposable income may prove to be greater or less than consumption in any given reference period. If disposable income is greater than consumption, then saving is a positive flow that moves into the capital account. Where consumption is greater than disposable income, then the saving is negative or a dissaving. This means that, during the reference period, households have financed some of their consumption by drawing on the capital account. This drawing may have comprised a running down of past savings by taking cash out of the bank, or by selling financial assets or non-financial assets. Alternatively, the extra funds may have been gained by incurring a liability in the form of a loan. Both the drawing on assets and the incurring of liabilities are activities that take place in the capital account and are described in Chapter 5.

4.15. The following sections in this chapter discuss, in some detail, the main concepts of income, consumption, taxes and saving that make up the current receipts and disbursements model of the current account. More formal definitions and classifications of the components are set out in Chapters 8 - 11.

## **Income**

4.16. Income is an extremely difficult concept to define and agree upon. The term is sometimes used loosely to refer only to the main component of income for most households - i.e. wages and salaries or business income. Others use the term very widely to include all receipts including lump sum receipts and receipts that draw on the household's capital.

4.17. Classically, income has been defined as the sum of consumption and change in net worth in a period. This is known as the Haig-Simons approach. (See Simons (1938) in Atkinson and Stiglitz (1980), p 260.) This approach has not been adopted in the ICW framework in its pure form because it does not distinguish between current and capital receipts. This division into current and capital receipts is crucial to the ICW framework which aims at distinguishing between the day-to-day 'living well' and the broader 'getting rich' aspects of household finances.

4.18. Therefore, for the ICW framework, a definition of income is needed that will describe those receipts on which individuals/families/households depend for their day-to-day living. It should therefore cover only those receipts which the household sees as regular flows which it can expect to continue to receive at least in the short term and which do not draw down the capital of the household.

4.19. In particular, the definition of income needs to distinguish these receipts from those lump-sum, one-off receipts that are classified as capital transfers received in this framework and which are considered to form part of additions to stocks of household assets. To make this distinction, receipts that are classed as income must be received on a regular and recurring basis.

4.20. Income receipts also need to be differentiated from money drawn from the sale of, or running down of, household assets or from the incurrence of liabilities. (One exception to this rule is the treatment of benefits from superannuation/pension schemes as income. This is discussed in more detail in Chapter 8.)

4.21. With these requirements in mind, and taking into account the expanded concept of income to include income-in-kind, income is defined as follows:

"Income comprises those accruing receipts (in cash and in kind) that are of a regular and recurring nature and are received at least once a year. It excludes any receipts that result in a running down of assets or an incurring of a liability."

(While this definition differs from the Haig-Simon definition commonly used, it is not incompatible with that definition in the broad scheme of the ICW Framework. The irregular and/or non-recurring receipts that the ICW definition of income excludes are accounted for in the Capital Account and Other Changes In Stocks Account. They are later combined with income in the broader measure of economic well-being - see Chapter 6.)

4.22. Income covers both cash and in-kind receipts and these may or may not be acquired via the market place. It comprises primary income, property income, transfer income and other non-market income.

4.23. Other non-market income includes the value of unpaid household work and other household services including those provided by the use of the owner-occupied dwelling and household consumer durables.

4.24. Conceptually, income in the ICW is net of expenses incurred in deriving this income. However, for practical reasons, the deduction of these expenses may need to be limited to situations where the expenses are widely recognised by taxation laws and are of a considerable size. Such limiting operational criteria mean that, in practical terms, there will be some likelihood of being able to collect reliable data on income after expenses.

4.25. Therefore, operationally, it will often be easier to collect business and rental income net of expenses than it

will be to collect, for example, wage and salary income net of employee costs such as transport, dry cleaning, etc.

4.26. Income is also net of depreciation of capital equipment used to generate income. Thus, income from unincorporated enterprises, for example, is net of both business expenses and depreciation. Similarly, estimation of the value of services provided to the household by household consumer durables should also take into account the depreciation of the capital items.

4.27. Income excludes intra-household transfers. This exclusion is applied because the household is the default statistical unit and the inclusion of these transfers would result in double-counting of income at the household level.

## **Consumption**

4.28. Consumption is the process of 'using up' goods and services. However, there are different types of goods and different types of using up.

4.29. Goods may be non-durable consumer goods which are immediately used up in the process of satisfying needs and wants (e.g. food). They may be consumer durables that are used up over a longer period during which time they provide a service to the household (e.g. car, refrigerator).

4.30. In the ICW the definition of consumption, in terms of goods, is limited to the using up of non-durable goods that have a single use or otherwise very limited life.

4.31. In terms of services, the classification of consumer durables as capital goods allows for recognition of the durable goods as assets rather than consumption items. They provide services to the household that could otherwise have to be purchased in the market place. These services may contribute significantly to the economic well-being of the household and are included, along with purchased services, as consumption in the ICW framework. The services are net of depreciation of the durable goods.

4.32. Consumption, therefore, may take the form of:

- final consumption expenditure, which describes the 'using up' of those services and non-durable items that are acquired via the market place in return for cash;
- in-kind consumption of services and non-durable goods which are acquired, without the intervention of money, from government, other households and private organisations, or from within the household;
- other current regular transfers outlaid.

4.33. Final consumption expenditure includes the value of indirect taxes paid on the purchase of consumption goods. For some analyses it may be desirable to separate out these taxes from the rest of the purchase value of goods. (Such indirect taxes are currently imputed in the ABS fiscal incidence study where indirect taxes on all purchased items (both non-durables and durables) are combined with direct taxes, direct and indirect government benefits to measure the redistributive effects of government taxes and benefits on household income.)

4.34. In-kind consumption encompasses services and non-durable goods acquired both via the market place (e.g. free or subsidised car provided by employer), and without recourse to the market place (e.g. services provided by own consumer durables, unpaid household work, etc.). It also covers services and goods provided in-kind in the form of gifts, etc. from other households.

4.35. Other current transfers relate to compulsory inter-household transfers such as child support, voluntary cash transfers and gifts purchased within the reference period that are given to other households for their consumption.

## **Direct taxes, compulsory fees and fines**

4.36. Direct taxes, compulsory fees and fines are defined as all direct compulsory transfers to government and all compulsory fees and fines paid to government. By far the major component of this group of outlays is the direct taxes which constitute a regular and recurring payment out of the household that reduces the amount of income available for consumption and saving.

## **Net disposable income**

4.37. Net disposable income is defined as gross income minus the value of direct taxes and compulsory fees and fines. It represents that income available to the household for consumption and saving.

## **Saving**

4.38. Saving is that part of current income (after direct taxes) that is not directly used up or transferred as part of household current consumption. Saving is therefore, in the current account, a derived item which depends on a knowledge of income, consumption and taxes for its derivation.

4.39. Saving may be either positive or negative in any reference period. Saving is positive when household disposable income is greater than the household consumption. In cases where household consumption is greater than the disposable income, then saving is negative i.e. a dissaving. (Because of the importance given to the distinction between positive and negative levels of saving, the term 'dissaving' will often be used in this paper to denote a flow of money from the household's capital to its current consumption.)

4.40. Households save out of current income for a number of reasons, for example:

- to create an asset (often an income-producing asset);
- to reduce or liquidate a liability; or
- to provide for future consumption through future dissaving.

4.41. At present, two major uses of on-going saving for Australian households are the repayment of mortgage principal on their home and the contributions made to superannuation funds out of their regular income.

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## **Chapter 5. The capital account and other changes in stocks accounts**

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### **Overview**

5.1. The components of the ICW framework defined in Chapter 4 all comprise the transactional flows that take place regularly and on a recurring basis. They describe the day to day running of a household with income being received on a regular basis, consumption taking place on a daily basis and consequent saving, or dissaving, depending on the levels of the first two flows. While the current account deals with the day to day 'living well' flows of the household, the capital account and other changes in stocks account deal with the 'getting rich' flows - i.e. changes in the value of the household's assets and liabilities or net worth. The capital account deals with changes in net worth that result from transactions that take place during the reference period. The other changes in stocks account deals with other volume changes and revaluations.

5.2. The transactions dealt with in the capital account are as follows:

- saving/dissaving
- capital transfers received and outlaid
- acquisition and disposal of non-financial assets
- acquisition and disposal of financial assets
- incurrence and repayment of liabilities.

5.3. It also deals with the depreciation allowance on capital stocks used in production. Depreciation appears in this account as a source of funds for investment.

5.4. The other changes in stocks account deals with flows that do not involve transactions:

- other changes in the volume of stocks
- nominal holding gains and losses.

5.5. It should be noted, however, that while some transactional flows in the capital account result in an increase or decrease in the value of assets and liabilities (e.g. capital transfer), some may involve only a change in their nature - for example where one asset is sold (e.g. a car) and another asset of the same value is acquired (e.g. cash). Alternatively, a capital account transaction may result in an offsetting capital account transaction (e.g. purchase of a house offset by incurring a mortgage as a liability). At an operational level, it will often be necessary, however, to account for all of these flows as it may not be clear until the end of the reference period which flows deal with an increase or decrease in the value of assets and liabilities and which deal only with a change in their nature. In other words, to balance the household books in the accounting system adopted, it would be necessary to collect data on all flows of economic resources and all household transactions.

## **Measuring change in net worth**

5.6. An understanding of capital flows and their effect on the household's net worth is necessary for the formulation of a complete measure of economic well-being. Change in net worth can be measured in two ways - using either a stocks model or a flows model. Although in concept these two approaches give the same measure of change in net worth, combining both approaches provides a more comprehensive measure of economic well-being.

### **Stocks model**

5.7. The stocks model is concerned with the value of the household's stock of assets and liabilities at the beginning ( $S_i$ ) and end ( $S_{ii}$ ) of the reference period and the resulting change in net worth. This change can be expressed as:

$$\text{change in net worth} = S_{ii} - S_i.$$

5.8. This stocks model for calculating change in net worth has the advantage of conceptual simplicity. It also has the advantage that it takes into account not only the effect of transactions but also of other changes in volume of stocks and revaluations. However, it does not, by itself, give any information on the household financial activities that lead to the change in net worth. If net worth has increased, it does not tell us whether this increase resulted from saving during the period or the receipt of capital transfers. A knowledge of these and other factors contributing to a change in net worth can be very useful in gauging the overall economic well-being of a family or household.

5.9. The stocks model currently poses problems at an operational level. The ABS does not conduct a wealth survey and there is little other data available on wealth holdings of individual households in Australia.

5.10. Because of this lack of information on the value of assets and liabilities, and because of the importance of information on the nature of transactions that result in the change of net worth, more emphasis is placed on an alternative method of measuring change in net worth that involves the dynamics of a flows model.

### **Flows model**

#### **Capital account transactions**

5.11. The flows model of the capital account adopts a similar accounting system to that used in the current account, i.e. it adopts a receipts and a disbursements book-keeping system to keep track of the numerous flows involved in a household's saving and investment activities.

5.12. The receipts side of the capital account deals with net receipts of investment funds during the reference period. The first of these net receipts is the saving or dissaving during the reference period that links the household's current and capital accounts. If a household saves during the reference period then that money moves into the capital account for investment. Saving is, therefore, an internal source of finance for household investment. If the household dissaves, then either assets are sold or liabilities are incurred in the capital account and the money moved to the current account as an internal source of finance for household consumption or taxes.

5.13. The second set of net receipts into the capital account are capital transactions that take place between the household and outside entities. These transactions take the form of capital transfers received by the household and capital transfers outlaid by the household. Net capital transfers received therefore constitute an external source of financing investment.

5.14. An additional source of capital receipts is that provided in the form of depreciation allowances set aside for the replacement of fixed capital used up in the process of production. These are allowances that have been deducted from current receipts before recording income earned by unincorporated enterprises, rental property, and income imputed from household durables.

5.15. The disbursements side of the capital account also deals with two major sets of net flows: net acquisition of non-financial assets and net lending. Net lending is defined as the net acquisition of financial assets minus the net incurrence of liabilities.

5.16. Net acquisitions of non-financial assets describe the net effect of the household's acquisitions and disposals of non-financial assets. It therefore represents the manner in which some (or all) of the net receipts of the capital account are used for this type of investment.

5.17. Net acquisition of financial assets describes the net effect of the household's acquisition and disposal of financial assets whether these be, e.g. money deposited in the bank or the purchase of shares or superannuation.

5.18. Net incurrence of liabilities describes the net effect of the household's incurrence and repayment of loans.

5.19. The receipts and disbursements sides of the capital account therefore give alternative views of the household's change in net worth over the reference period: a view from the perspective of the net resources available for investment from saving, net capital transfers and depreciation allowance; and a view of the manner in which these net resources are invested.

### **Other changes in stocks**

5.20. The flows model of the other changes in stocks account deals with two net flows:

- the net effect of changes in volume of assets caused by such things as catastrophic events, uncompensated seizures, and so on;
- the net effect of nominal holding gains and losses.

The latter relate to changes in stocks brought about by capital gains and losses.

### **Capital account dynamics**

5.21. From the receipts side of the capital account, saving, depreciation allowance, capital transfers and change in net worth may be expressed by the equation:

$$\begin{aligned}\text{Transactional change in net worth} &= \text{saving} \\ &+ \text{net capital transfers received} \\ &+ \text{depreciation allowance}\end{aligned}$$

5.22. The disbursement side of the capital account relates to flows that involve the acquisition and disposal of non-financial assets and net lending.

5.23. Formally, the disbursement side of the capital account in the transactions model may be expressed as:

$$\begin{aligned}\text{Transactional change in net worth} &= \text{net acquisition of non-financial assets} \\ &+ \text{net lending}\end{aligned}$$

### **Other changes in stocks account - dynamics**

5.24. The Capital account dynamics model in the previous topic deals only with the transactional flows that lead to change in net worth. There are, however, other factors affecting changes in net worth that do not require any action on the part of the household. The other changes in stocks account gives two separate components of this change.

5.25. The first derives the net effect of other changes in the volume of stocks. The second derives the net effect of nominal holding gains and losses.

5.26. When the net effects of these flows are added to the measure, the complete change in net worth during the reference period will, from the resources side, be depicted as follows:

$$\begin{aligned}\text{Total change in net worth} &= \text{saving} \\ &+ \text{net capital transfers received} \\ &+ \text{depreciation allowance} \\ &+ \text{other changes in stocks}\end{aligned}$$

5.27. From the disbursements side, the full measure is shown as:

$$\begin{aligned}
 \text{Total change in net worth} &= \text{net acquisition of non-financial assets} \\
 &+ \text{net lending} \\
 &+ \text{other changes in stocks}
 \end{aligned}$$

5.28. The strict accounting procedures used in the capital, and other changes in stocks, accounts ensure that the receipts and disbursements sides of the accounts balance, that is:

$$\begin{aligned}
 \text{net capital transfers received} + \left\{ \begin{array}{l} \text{saving} + \\ \text{depreciation allowance} + \\ \text{other changes in stocks} \end{array} \right\} &= \left\{ \begin{array}{l} \text{net acquisition of non-financial assets} \\ + \text{net lending} \\ + \text{other changes in stocks} \end{array} \right\}
 \end{aligned}$$

## Net worth / wealth

5.29. As stated in the previous topic, the stocks of wealth held by households (and unincorporated enterprises owned by households) are formally labelled as the household's net worth. Net worth is defined as the difference between a household's stock of financial and non-financial assets and its stock of liabilities at a given point in time.

5.30. The value of a household's net worth plays an important part in its economic well-being. It may earn a return to the household in the form of income from interest, dividends, rent from properties, and so on. It also affects the broader economic power of the household. For example, those households with high levels of net worth may find it easier to gain credit whether that credit be to allow for further investment or to maximise the choice of timing for different types of consumption. High levels of net worth can also affect future living standards by the potential for dissaving for consumption at a later date. For these reasons it is important to ascertain, if possible, the value of the household's net worth to give a complete picture of a household's command over economic resources or economic well-being.

## Change in net worth

5.31. The change in the value or level of a household's net worth during the reference period is also an important indicator of economic well-being. If the level of net worth has increased, then this increase will often have resulted from transactions flows i.e. either from saving or from the receipt of capital transfers. In other words, it is likely that the household has been able to save out of its income or has had access to other capital resources. Such a household may be better off than a household with a similar level of consumption that has financed this consumption by dissaving i.e. running down assets or incurring a liability.

5.32. It should be noted, however, that information on a household's change in net worth needs to be supplemented by data on level of net worth to be useful in assessing economic well-being. Some households may dissave and may have planned this dissaving by a continuous stream of saving in the past while for others the dissaving may have been involuntary. The value of the net assets backing this dissaving is therefore an important piece of information.

## Net capital transfers

5.33. Net capital transfers are defined as the difference between the sum of capital transfers received by a household during the reference period and the sum of capital transfers outlaid during the reference period.

5.34. Capital transfers are defined as transactions where ownership of assets is transferred between two households or between a household and government/ private sector institution. Capital transfers result in an addition to the stock of net worth of the recipient unit and a depletion in the stock of net worth of the donor unit. Capital transfers may be in cash or in-kind.

5.35. There are considerable practical problems in operationalising the concept of capital transfers and it may sometimes be difficult to decide whether to classify a receipt as a capital receipt or as income. Similarly, it may be difficult to distinguish a transfer outlaid as a current (consumption) transfer from a capital transfer.

5.36. This difficulty arises because data will often not be available to indicate whether the recipient household sees the receipt as a source of income or as a gaining of an asset. Data will be even less likely to be available on whether the donor unit paid the transfer out of its income or out of its assets. For this reason, more practical operational definitions of capital transfers are adopted.

5.37. It should be noted, however, that misclassification of capital transfers and current transfers will affect the measure of saving. When capital transfers received are misclassified as income then the measure of household

saving will be overestimated. Similarly, misclassification of capital transfers outlaid as current (consumption) outlays will underestimate household saving.

## **Capital transfers received**

5.38. Capital transfers received are defined as the transfer of ownership of an asset to the household by another household (e.g. inheritance), by government (e.g. home purchase grant) or by a private institution (e.g. damages insurance receipt).

5.39. The capital transfers received may, however, be subsequently drawn upon by the recipient for consumption. If this withdrawal takes place during the same reference period, then the capital transfer is used for consumption and will not result in a change in net worth during the reference period for that household. (The measure of economic well-being will, however, reflect these extra resources as they will show up as higher consumption.)

5.40. To distinguish capital transfers from income receipts, the transfers are operationally defined as irregular, usually non-recurring receipts. Capital transfers usually entail the receipt of a large amount of cash or a large asset. They would not normally be viewed by the recipient household as an on-going source of receipts that would allow consumption to continue at an increased level over time. Large in the definition of capital receipts is therefore defined as being large in terms of the normal regular income of the recipient household.

5.41. Where there is difficulty distinguishing whether the receipt is an income receipt or a capital transfer, the receipt should be classified as income.

## **Capital transfers outlaid**

5.42. Capital transfers outlaid are defined as the transfer of ownership of an asset by the household to another household (e.g. lump sum alimony payment), to a private institution (e.g. large donation to charity) or, less frequently, to government.

5.43. Capital transfers outlaid may be distinguished from current transfers outlaid if they are too large to have been financed from the donor household's income during the reference period. The capital transfer outlaid will not, therefore, be a regular or recurring outlay.

5.44. Where there is difficulty in distinguishing whether an outlay is a current or capital outlay, it should be classified as a current (consumption) transfer.

## **Net acquisition of non-financial assets**

5.45. Net acquisition of non-financial assets is defined as the additions of all new or existing non-financial assets to the household's stocks, less the disposal of non-financial assets held by the household and by unincorporated enterprises owned by the household. Household non-financial assets include durable goods such as cars and refrigerators, and intangible assets such as patented entities.

## **Net lending**

5.46. Net lending describes the net effect on a household's wealth brought about by its dealings in financial assets and liabilities. It is the excess of net acquisition of financial assets over the net incurrence of financial liabilities.

## **Other changes in stocks**

5.47. Other changes in stocks comprise two components that both cover non-transactional changes in the value of assets and liabilities. The first of these is the change in the volume, and therefore value, of stocks brought about by such occurrences as catastrophic events or uncompensated seizures. For example, a house may be lost in a cyclone and not be covered by insurance. An uninsured asset may be stolen. Similarly, a liability may be 'lost' or cancelled by, for example, the death of the lender.

5.48. The second component is that which relates to nominal holding gains or losses (i.e. capital gains and losses). Nominal holding gains and losses derive from an increase or decrease in the value of the assets over the purchase price, resulting from an increase or decrease in prices, changes in the desirability of the goods on the market, and so on.

5.49. Nominal holding gains and losses may be realised or unrealised during the reference period. Net realised capital gains represent a positive or negative flow of funds to the household. Net unrealised capital gains represent

a notional flow - i.e. the flow is there to be taken if the household decides to sell the assets.

5.50. At an operational level, neither realised nor unrealised capital gains can be measured in the flows model because the value of goods purchased before the beginning of the reference period will not be known.

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## Chapter 6. Summary measures of economic well-being

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### Overview

6.1. Economic well-being should be measured in terms of a household's capacity to consume, its capacity to accumulate wealth and the value of the wealth held by the household. This paper has attempted to describe the first two of these in terms of the dynamics of its three separate accounts: current, capital and other changes in stocks. However, if the term 'economic well-being' is to represent the total command over economic resources held by a household, all three elements have to be brought together to derive a single index of command over economic resources.

6.2. The capacity to consume and the capacity to accumulate wealth have been described in the flows models for the three accounts. The value of the wealth itself is, however, a stock measure. The difficulty arises in combining a flows model with a measure of the value of the stock to the household during the reference period.

6.3. The formulation of a composite measure of economic well-being will therefore be considered in two steps: first the simple flows model that ignores the value of the stock, and second, building on this, a composite stocks/flows measure that deals with the value of the stock itself.

### Flows measure of economic well-being

6.4. The accounts in the flows model can be brought together in a number of different ways to measure a household's command over goods and services. In particular, the option is available of approaching the measure of economic well-being from the viewpoint of the household's receipts or from the viewpoint of the household's disbursements.

6.5. In approaching the measure of economic well-being from the receipts side of the accounts, emphasis is placed on the household's capacity to consume rather than on its actual consumption. To some extent, the choice will be determined by the availability of data and, in the Australian context at present, this will more often mean a receipts based measure.

6.6. Economic well-being, using the receipts approach of the flows model, can be formally described as follows:

$$\begin{aligned}\text{Economic well-being} &= \text{disposable income} \\ &- \text{saving} \\ &+ \text{transactional change in net worth} \\ &+ \text{other changes in stocks}\end{aligned}$$

This formula is, however, rather clumsy in that it includes saving twice - i.e. saving is a component of disposable income and is also included in the calculation of 'transactional change in net worth'.

6.7. An alternative approach is to measure economic well-being from the disbursements position, using the relationship between disposable income and consumption described in paragraph 4.12.

$$(y = C + S)$$

This consumption measure states that:

$$\text{Economic well-being} = \text{consumption}$$

- + transactional change in net worth
- + other changes in stocks

## Stocks and flows measure of economic well-being

6.8. The formulation of the measures of economic well-being above takes into account only the change in net worth over the period but ignores the absolute value of household net worth at any point in time.

6.9. The value of the stocks of assets and liabilities is of great importance in any consideration of a household's economic well-being. A high level of net worth can contribute a number of advantages. It gives security against a rainy day. The consumption patterns of the household and the level of saving that takes place are also affected by the value of the stock. For example, if a household has a high level of assets then it may be more comfortable consuming all, or more than all, of its income. The household with a low level of assets or with a high level of liabilities may feel more constrained in its consumption. Stocks of assets may also provide for the security of future income through their capacity to generate a flow of income via interest, rent and dividends.

6.10. It is important, therefore that any comprehensive measure of economic well-being takes into account the absolute value of household net worth as well as the value of changes to stocks of net worth over the period. The question arises, therefore, as to how the value of these stocks can be incorporated into what has so far been a flow model of economic well-being. The value of the stocks cannot be added directly to a flow value.

6.11. The solution adopted is to create a combined stock/flow model by converting the stocks to a notional annuity for the household. The notional wealth annuity in this context can be defined as the transformation of the value of household net worth into a right to be paid a (notional) fixed annual sum of money for a defined lifetime.

### Notional wealth annuities

6.12. The question then arises as to whether all wealth should be annuitised or whether the annuitisation should be limited to fairly liquid assets. Arguments can be made, for example, that the value of the owner-occupied dwelling should be excluded on the grounds that it is not available for annuitising while the owner is still living there. A similar argument is often put forward against annuitising the value of consumer durables such as the family car.

6.13. However, a strong argument for including all assets in annuitised income is that the nature of wealth holdings is age-related. The exclusion of non-financial assets, and owner-occupied dwellings in particular, would seriously under-estimate the full income potential of the aged.

6.14. Given these considerations, the annuitisation of both non-financial and financial assets held by households is recommended in the ICW framework.

6.15. Annuitisation of wealth requires that a number of other value judgements and assumptions also be made in relation to, e.g. the period over which the wealth should be annuitised (life of householder or spouse?) and the interest rates to be used. These issues will be addressed in future work by the ABS on the annuitisation of household wealth.

### ICW stock/flow model

6.16. In incorporating the notional annuity with the flows measures set out in **Flows measure of economic well-being** above, the choice can again be made between the income approach or the consumption approach.

6.17. The income approach gives the following as an improved measure of economic well-being in a stock/flow model:

$$\begin{aligned}
 \text{Economic well-being} &= \text{disposable income} \\
 &- \text{saving} \\
 &+ \text{transactional change in net worth} \\
 &+ \text{other changes in stocks} \\
 &+ \text{notional wealth annuity}
 \end{aligned}$$

(Note that the notional wealth annuity will include both a component comprising the running down of the stock of wealth and a component reflecting the likely interest earned on that stock over the owner's lifetime. It is therefore necessary, when defining the notional annuity, to deduct the value of all property income actually received during the reference period, the value of imputed rent from owner-occupied dwellings, and the value of services provided to the household by consumer durables.)

6.18. The consumption approach to economic well-being that incorporates the notional wealth annuity gives the following measure:

$$\begin{aligned}\text{Economic well-being} &= \text{consumption} \\ &+ \text{transactional change in net worth} \\ &+ \text{other changes in stocks} \\ &+ \text{notional wealth annuity}\end{aligned}$$

6.19. Given that the wealth annuity is only a notional flow, then the measure of economic well-being is also a notional measure. That is, economic well-being is measured not entirely as the level of well-being enjoyed by the household during the reference period but as the level of well-being available to the household if it chose to use all of the economic resources available to it.

## **Permanent income and lifetime earnings**

6.20. The income/wealth measure described above still has some shortcomings as a measure of economic well-being. In particular, it ignores the value of human capital. In so doing, it annuitises the accumulated economic wealth (held predominantly by the middle-aged and older section of the population) while ignoring the future wealth that will be accumulated by the young.

6.21. This omission is particularly important given that the consumption and saving patterns of the young may well be influenced by considerations of permanent income. For example, young people may feel free to consume and go into debt in the expectation that higher salaries later in life will assist in paying for this life-style.

6.22. Despite these considerations, however, this paper does not propose the use of a permanent income measure at this stage. This stance is taken for a number of reasons.

6.23. First, data on life-time income is virtually non-existent for Australian households at present. Very few panel surveys have been run and even these panel surveys do not provide a picture of lifetime income.

6.24. Second, while simulation techniques for deriving permanent income are being developed, they are heavily dependent on assumptions about earnings, consumption, changing household composition and other life choices. Further research needs to be carried out in this field.

6.25. However, the ABS recognises the usefulness of cross-section life cycle data for analysis of distribution of income and income inequality and this approach has been used in ABS analyses such as the Fiscal Incidence Study.

## **Equivalence scales**

6.26. A further necessary refinement to the measure of economic well-being is to take into consideration the differing needs for economic resources for different households. These needs, and the economic well-being of the households, will differ according to the size and socio-demographic characteristics of the household. For example, to achieve the same standard of living, a person living alone is assumed to require less income than a married couple without children who in turn would require less income than a married couple with, say, five children. In addition, a person working outside the home may incur greater costs with respect to, say, clothes and transport than a person who is not in the labour force.

6.27. In order to take these variations into account, equivalence scales should be applied to income data used to measure economic well-being. Equivalence scales are used to adjust household income to account for the effects that differences in size, composition, labour force participation and other characteristics have on a household's standard of living.

6.28. A number of different equivalence scales have been used in Australia for the analysis of cash income and none of these scales is perfect. The most commonly used equivalence scales are those derived for the Henderson Inquiry into Poverty in the 1970s. There is an extensive array of literature on the strengths and short-comings of these and other commonly used scales. Another option is to adopt a more widely recognised, and internationally used, set of equivalence scales.

6.29. Most equivalence scales have been developed for use with cash income and these are often applied to broader measures of income which include non-cash income. This may not be conceptually correct in all cases. As with consumption expenditure, the equivalence scales should take into account the differing effects of the non-expenditure consumption on the household's standard of living. It is likely that several equivalence scales, used in conjunction with different forms of non-cash consumption and non-cash income, will be required, along with

sensitivity tests to show the effects of choosing different sets of scales.

6.30. At this stage the ABS does not recommend a particular set of equivalence scales for use in analysis of cash income and this issue will be addressed in a separate study.

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## Chapter 7. Statistical units

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### Overview

7.1. A statistical unit (or counting unit) is the basic entity for which information is to be collected and analysed. The following statistical units are relevant for measures of economic well-being of the population:

- Person
- Household
- Family
- Income unit.

7.2. The following topics are definitions of these units. The ABS Classifications and Standards Section can provide more detail about the definitions and describe how the definitions are operationalised.

### Person

#### Definition

7.3. The statistical unit person comprises all people in their capacity as 'private' individuals. A person may be classified in a number of different ways - e.g. employee, pensioner. These different classifications will often specify the types of people to be included. Thus, for 'employee', only people 15 years of age and over are included if they have a job. For 'age pensioner', only males 65 years and over and females 60 years and over who are in receipt of government cash benefits are included.

7.4. The statistical unit also includes persons as owners of, or partners in, unincorporated enterprises. Ideally, one would wish to separate out the income, consumption and net worth of the persons as members of a family or household and the income, consumption and net worth of the businesses they operate. In practice, it is often not possible to distinguish between the assets and liabilities of an unincorporated enterprise and those of the owner in his/her private capacity.

7.5. Liabilities of unincorporated enterprises and owners are not separable. Legally, the owner and the enterprise constitute the same entity and owners are responsible for all debts of the business. This means that a large business debt incurred during the reference period is also a debt incurred by the owner and should therefore feature in any calculation of that private person's change in net worth.

7.6. Many fixed assets such as buildings and cars are used for both private and business purposes and it may be difficult even for the owner to make this clear distinction. In addition, some goods supposedly purchased for intermediate consumption in the business are used as final consumption by the person or household.

### Household

#### Definition

7.7. A household is broadly defined as a group of people who usually reside and eat together.

7.8. Operationally, it is defined as either:

- a one-person household, that is, a person who makes provision for his or her own food or other

essentials for living without combining with any other person to form part of a multi-person household; or

- a multi-person household, that is, a group of two or more persons, living within the same dwelling, who make common provision for food or other essentials for living. The persons in the group may pool their incomes and have a common budget to a greater or lesser extent; they may be related or unrelated persons, or a combination of both. (ABS 1994a.)

7.9. Households therefore have the following characteristics:

- a household resides wholly within one physical dwelling. A group of people who make common provision for food but are living in two separate dwellings are two separate households;
- the notion of pooling income may be implied by the definition but it is not an essential criterion in defining a household. That criterion is used in defining the income unit (see below);
- lodgers, who receive accommodation only (not meals), are treated as a separate household;
- boarders, who receive accommodation and meals (board), are treated as part of the household.

## **Family**

### **Definition**

7.10. A family is defined as: two or more related people who usually live together.

7.11. A family comprises two or more persons, one of whom is at least 15 years of age, who are related by blood, marriage (registered or de facto), adoption, step or fostering, and who are usually resident in the same household. A separate family is formed for each married couple, or for each set of parent/child relationships where only one parent is present.

7.12. Families therefore have the following characteristics:

- a family must consist of at least two persons, one of whom is at least 15 years of age;
- a family is identified only from persons who are usually resident within a specific household. Family members living in other households are excluded from being part of the same family for practical collection purposes;
- registered and de facto (including same sex ) marriages are accorded equal status;
- unrelated individuals living in the same household (e.g. friend, boarder, housekeeper) are not counted as family members provided they are 15 years of age or over;
- separate families are identified within a single household if more than one group of people satisfy the criteria for forming a family.

## **Income unit**

### **Definition**

7.13. An income unit is defined as: one person, or a group of related persons, within a household, whose command over income is shared.

7.14. The relationships allowed for in the definition of income unit are restricted to those of marriage (registered or de facto) and of parent/dependant child who usually reside in the same household.

7.15. Operationally, this means that an income unit can be defined as:

- (a married couple (registered or de facto) or sole parent, and dependent children only; or
- married couple only (registered or de facto) with no dependent children present; or
- a person in a private dwelling who is not related to any other household member either by marriage (registered or de facto) or by the parent/dependant child relationship.

## Comments

7.16. The ideal statistical unit for analyses of economic well-being is one where assumptions of sharing of economic resources are most sustainable. Ideally, the unit should be one where an assumption can be made that the well-being of any individual can be assessed on the basis of the combined economic resources of all members.

7.17. In this regard, households and families suffer from the fact that the amount of sharing of resources within these units is extremely variable. The household is used as a default unit in the ICW framework, however, because of the need to aggregate to this level when dealing with data on consumption and assets. Where income data only is available, this latter constriction is removed.

7.18. While there has been little work done in Australia on the way different household and family members share income, the ABS makes the fairly safe assumption that, in the Australian context, the closer the relationship between the members, the more likely it is that income will be shared. Therefore, where income is used as a proxy for economic well-being, the preferred unit of analyses is the income unit.

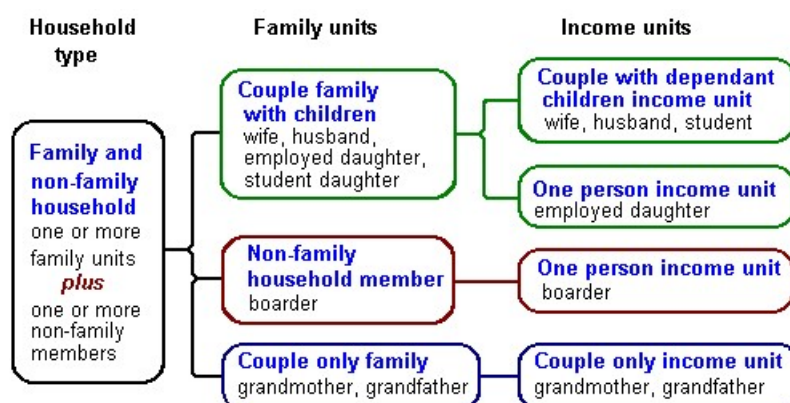
7.19. Note that sharing of income in this context means that members of the unit benefit equally from the income. This does not mean that the same amount of money must be spent on each member. Obviously, the needs of each member of the unit will differ according to characteristics such as age, student status, labour force status, etc. Different needs of members may be taken into account by use of equivalent scales during income analysis.

7.20. It should be noted, however, that the assumptions of sharing inherent in the statistical unit will not apply in all cases. The extent of income sharing within income units may vary considerably and, therefore, measures of the unit's economic well-being will serve only as proxies of individual economic well-being.

## Examples of households

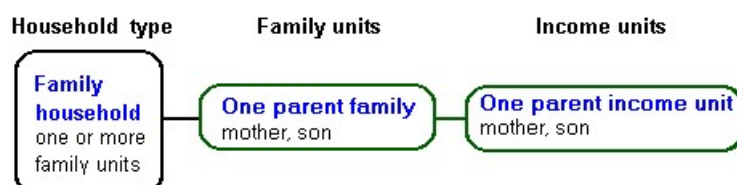
### Multiple unit household (Figure 7.1)

7.21. A household comprising a wife, husband, their employed daughter, her friend (boarder), another daughter aged 20 and studying full-time (student), husband's mother (grandmother) and father (grandfather) would be categorised into family and income units as shown in figure 7.1:



### Single unit household (Figure 7.2)

7.22. A household comprising a mother and 12 year old son would be categorised into family and income units as shown in figure 7.2.



## Relationship between units

7.23. In summary, the hierarchical relationship between a household, family, and income unit is characterised by the

following:

- household - common provision for food or other essentials for living
- family - related by blood, marriage, adoption, step or fostering
- income unit - a pooled or shared command over economic resources.

7.24. A household may contain one or more family units, each of which may contain one or more income units (see Figure 7.1). Frequently the household, family and income unit are identical (see Figure 7.2).

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## Chapter 8. Income

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### Overview

#### Definition

8.1. Income is defined as follows: income comprises those receipts accruing (in cash and in-kind) that are of a regular and recurring nature, and are received by the household or its members at annual or more frequent intervals. It includes regular receipts from employment, own business and from the lending of assets. It also includes transfer income from government, private institutions and other households. Income also includes the value of services provided from within the household via the use of an owner-occupied dwelling, other consumer durables owned by the household and unpaid household work. Income excludes capital receipts that are considered to be an addition to stocks, and receipts derived from the running down of assets or from the incurrence of a liability. It also excludes intra-household transfers.

#### Running down of assets

8.2. For practical and conceptual reasons, an exception is made in this definition of income with regard to one important source - viz the household receipts from pension funds. Under the above definition of income, household receipts in the form of pensions from funded schemes should be treated as a drawing on assets and therefore not income.

8.3. However, the exclusion of private pensions and annuities from the scope of income would severely affect analysis relating to the distribution of economic well-being. For many people, these receipts of private pensions or annuities are the only income they have and are viewed as income by the household.

8.4. Therefore, the following stance is taken:

- benefits from unfunded and funded schemes are treated as income;
- employers' contributions or premiums paid to superannuation funds have been classified as part of income as a return to labour and therefore as part of household saving in the current account. The employer contributions are then regarded as being immediately transferred into superannuation funds, with these imputed transactions being recorded in the household's capital account. This treatment will, however, cause a double counting of income at the aggregate level and this should be kept in mind when analysing data compiled according to this framework.

(Note that similar treatment of benefits from both funded and unfunded pension schemes has been recommended in the SNA93, although an explicit adjustment is made in the Use of Disposable Income Account of the SNA93 to eliminate the double counting and hence to correctly measure aggregate household saving.)

#### Income in-kind

8.5. Income is generally thought of as a cash or money receipt. However, important elements of the income of persons and households are obtained in forms other than money. This is called income in-kind. There are two broad types:

- market exchange
- non-market exchange.

8.6. An example of the first type is an employer who provides an employee with goods (e.g. food, petrol) or with a service (e.g. the use of a car, a free house) in lieu of cash wages.

8.7. An example of the second type is the services provided by an owner-occupied dwelling. The service does not enter the market or involve money, but is nevertheless an important source of 'income' to the owner.

8.8. In order to add or compare income in-kind with cash income, the cash equivalent of the income in-kind has to be estimated or imputed. Also, because the transaction does not have the intermediary of money, income and consumption are not separate events. What is received as income is not cash but rather the right or ability to consume a particular good or service.

8.9. Therefore, in the ICW framework, a simultaneous imputed value for both income and consumption must be made.

8.10. In theory, the scope of income in-kind can be very wide. It may range from the consumption of domestic services provided by a household member, to the pleasure derived from a painting or a clean environment. Two criteria are used to define the limits to the inclusion of income in-kind:

- is there some basis for making a reasonably accurate estimate of the money equivalent?
- does the estimate have a practical application (e.g. in government policy)?

8.11. Applying these criteria, priority should be given to the income in-kind obtained from:

- employment benefits
- social security in-kind concessions
- other government in-kind transfers
- gifts and services provided free by other households
- gifts and services provided free by private organisations (e.g. charities)
- services provided by unpaid household work
- services provided by owner-occupied dwellings
- services provided by consumer durables.

### **Classification**

8.12. Income can be classified as cash income or as income in-kind and can also be classified according to source of income. Income may be derived from market activity, in the form of a return to labour and entrepreneurial skills or from the ownership of assets. It may also be derived from outside the market place, in the form of government and private transfers to the household or in the form of goods and services provided from within the household.

8.13. Source of income:

- market income
  - primary income
  - property income
- non-market income
  - transfer income
  - other non-market income.

### **Primary income**

## Definition

8.14. Primary income is defined as receipts accruing in cash or in-kind in the current reference period to employees and self employed persons by virtue of the deployment of their labour and entrepreneurial skill in productive activity. In-kind receipts are measured as an imputed cash equivalent.

## Classification

8.15. Primary income is classified as:

- Employee income
- Entrepreneurial income.

## Primary income: Employee income

### Definition

8.16. Employee income is defined as the sum of employee 'earnings', as defined by ILO (see below), and employer contributions to employee superannuation and pension funds.

8.17. The ILO defines earnings for employees as "...remuneration in cash and in kind paid to employees, as a rule at regular intervals, for time worked or work done, together with remuneration for time not worked, such as for vacation, other paid leave or holidays". (ILO 1973, quoted in Hussmanns et al, 1990).

8.18. Employer contributions to employee superannuation and pension funds (which are excluded from the ILO definition) comprise actual contributions payable to funded schemes and an imputed value of contributions to unfunded schemes.

### (a) Employee cash income

8.19. Employee cash income includes:

- wages and salaries
- tips, commissions and regular bonuses
- other profit-sharing bonuses
- piecework payments
- payment for recurring odd jobs, casual work
- penalty payments and shift allowances
- directors' fees
- remuneration for time not worked
  - holiday pay
  - sick pay
  - pay for public and other holidays
  - other paid leave
- worker's compensation paid by the employer
- leave loading.

8.20. Employee cash income excludes severance or termination pay which is classified as a lump-sum receipt and included with capital transfers received. It excludes allowances paid by an employer purely to cover the cost of work-related expenses (e.g. electoral allowance for MPs). It also excludes pension payments from unfunded schemes paid to former employees which are included in transfer income.

### (b) Employee income in-kind

8.21. Employee income in-kind includes:

- goods or services

- transport
- telephone
- holiday expenses
- medical expenses
- housing
- low-interest subsidy on finance
- shares
- union dues/professional association
- electricity
- club fees
- child care/education expenses
- other.

(c) Employer contributions to pension and superannuation funds

8.22. As noted previously, 'employer contributions to pension and superannuation funds' differ from other components of employee income in that they are not available for household consumption. Instead, the contributions are seen to be immediately disbursed by the household into household saving.

8.23. Employees comprise persons working for an employer or working for their own corporate enterprise (limited liability company).

**Classification**

8.24. Employee income is classified according to the type of employee, and whether the income is in cash or in-kind.

(a) Employee income:

- working for employer
- working for own corporate enterprise.

(b) Employee income:

- cash
- in-kind
- employer contributions to superannuation/pension funds.

**Primary income: Entrepreneurial income**

**Definition**

8.25. Entrepreneurial income is the income that accrues to persons or households as owners of, or partners in, unincorporated enterprises.

8.26. Because the enterprises are not incorporated, the householder and the enterprise form a single legal entity. All of the profits of the enterprise are therefore assumed to be disbursed to the owners. Similarly, if the enterprise suffers a loss, the household, as the owner, is responsible for this debt. Losses incurred by unincorporated enterprises are classified as a negative income flow.

8.27. The concept of 'profit/loss' used for entrepreneurial income is different from the concept of gross receipts used for other components of primary income. This profit/loss, also known as net entrepreneurial income, consists of the value of the gross output of the enterprise after the deduction of operating expenses and an allowance for

depreciation of assets used in producing goods.

8.28. Gross output comprises the value of goods and services produced by the enterprise for the market, for provision to employees free or at subsidised cost or for own consumption.

8.29. Operating expenses comprise the following:

- labour costs in the form of wages, salaries and supplements
- the value of raw materials purchased
- the repair or maintenance of equipment (including vehicles)
- the purchase of fuel
- indirect taxes
- interest paid in connection with the business, and
- rent paid for buildings and land used in the business.

8.30. Depreciation is the value of capital consumed in the productive activity. An allowance for this is subtracted from the receipts of the business in order to allow for entrepreneurial income to conform with the broad definition of income that defines income as receipts that exclude the running down of capital.

### **Classification**

8.31. Entrepreneurial income may be classified as:

- farm income
- non-farm income.

8.32. This distinction may be useful in analysis given the added difficulty of collecting data on farm produce consumed and given the wider fluctuations in farm income from year to year.

### **Comments**

#### (a) Negative income

8.33. As indicated above, the income of an unincorporated enterprise will be negative when the operating expenses and depreciation are greater than the gross receipts. This means that not only does the enterprise not make any profit, but that even to cover costs the enterprise must be either drawing on assets or incurring a debt.

#### (b) Accuracy and suitability of the measure

8.34. Data on entrepreneurial income is often the most unsatisfactory of all income items collected in household surveys. This 'unsatisfactory' nature of the data stems from two different considerations:

- Accuracy - whether the data is an accurate assessment of the profit or loss of the enterprise, and
- Suitability of the measure - whether this profit/loss is a good reflection of the resources available to the entrepreneur in determining the household's standard of living.

### **Accuracy**

8.35. It is often the case that the record-keeping practices of the enterprise are inadequate. Many of the self employed are not in a position to provide figures for 'gross output', 'operating expenses' and 'depreciation'. Even if adequate records are kept, they are often not kept in the home where the respondent is interviewed.

8.36. A common practice is to ask respondents for their taxable income given that they are required to submit a tax return once a year and this contains the approximate information needed.

8.37. The question then remains as to how different is the taxable income from the 'accounting income' that may be a better reflection of the enterprise's true profit or loss.

8.38. Briefly, the two income measures differ slightly both in definitional terms and in terms of timing of expenses and depreciation. No quantification of these differences has been carried out by the ABS.

## **Suitability of the measure**

8.39. The second question is whether either of the above measures gives an accurate reflection of the resources available to the household for consumption and saving. Of particular importance may be whether some of the cash receipts of the business are used for personal consumption before they are entered into either set of accounts.

### **(c) Alternative measures**

8.40. Given the often unsatisfactory nature of the above measures of profit/loss, it is sometimes suggested that a better measure to collect may be the 'withdrawals' that the entrepreneur makes from the enterprise. The suggestion is that this may be a better indicator of the household's standard of living and may better match the household's consumption patterns. This suggestion was most recently made at the Fifteenth International Conference of Labour Statisticians in Geneva (ILO 1992).

8.41. However, the ICLS finally concluded (helped by the submission from the ABS) that:

'The fact that the own-account worker might actually withdraw the totality of that income (or even more) for consumption or retain part of it in the enterprise for future investment and savings should not be taken into account in measuring income from self-employment.' (ILO 1993)

8.42. The stance taken in this paper is that, conceptually, it is not appropriate to attempt to impose separate identities on the self-employed person and the enterprise when these two identities in fact form a single legal entity.

8.43. Therefore, where consumption of the household is higher than the income received, then that household must be financing that consumption either by drawing on capital or incurring a liability. Such dissavings by entrepreneurial income households are not included in the concept of income as defined by the framework.

## **Property income**

### **Definition**

8.44. Property income is defined as the net receipts accruing in the current reference period as a result of ownership of assets. It comprises returns from financial assets (interest, dividends), from non-financial assets (rent) and from royalties. Property income excludes the income imputed for services provided by owner-occupied dwellings and services provided by consumer durables which are included in other non-market income.

### **Classification**

8.45. Property income is classified as:

- Interest
- Dividends
- Rent
- Royalties
- Income on employee equity in pension funds
- Other property income.

### **Property income: Interest**

#### **Definition**

8.46. Interest consists of receipts from deposits (including term deposits) with banks, building societies, credit unions, and other financial institutions. Also included is interest received from government bonds/loans and securities, debentures and interest received from personal loans to others outside the household.

### **Property income: Dividends**

#### **Definition**

8.47. Dividends comprise income received from investments in corporate equities, such as ownership of shares.

Dividend income includes bonus shares received. Bonus shares are deemed to be received and saved as one notional transaction. They add to the value of the household's assets and are not available for consumption.

### **Property income: Rent**

#### **Definition**

8.48. Rent comprises payments received from property other than owner-occupied dwellings. It includes income from lodgers and from others who are sub-letting parts of the dwelling, but excludes income from boarders who are counted as members of the household.

8.49. Rent includes that rent received by unincorporated enterprises where it is separable from other enterprise receipts.

8.50. Analogous with entrepreneurial income, rent is net of operating expenses such as repairs and maintenance and interest payments. It is also net of depreciation.

### **Property income: Royalties**

#### **Definition**

8.51. Royalties comprise payments for the use of patented or copyright materials, etc.

### **Property income: Returns on equity in pension funds**

#### **Definition**

8.52. Property income includes interest and other income paid to pension funds on the employee's equity while that employee is still working. This income is deemed to be received and saved as one notional transaction, increasing the value of financial assets during the period. It is therefore not available for consumption.

8.53. On the practical level, this item would be very difficult to collect in household surveys.

### **Transfer income**

#### **Definition**

8.54. Transfer income is defined as regular and recurring receipts other than those derived from primary or property income. They differ from primary and property income in that they do not involve a 'quid pro quo' e.g. a return for labour, a return for use of assets. Therefore, transfer income is classified as 'non-market' income.

8.55. Transfer incomes often result from an effort of redistribution, either privately (e.g. child support from another household, private pensions) or by government (e.g. a wide range of social security pensions and benefits paid by various government departments with responsibility for income support and welfare). They may result from a contractual arrangement e.g. in the case of payments by a funded or defined benefit pension scheme, or on a non-contractual basis.

8.56. Income from transfers may be received either in cash or in-kind, the latter being imputed to a cash equivalent.

8.57. Conceptually, current transfers should be distinguished from capital transfers by the criterion that they are paid out of the income of the donor and considered to be income rather than an addition to capital for the recipient. However, this criterion would be almost impossible to implement in household surveys.

8.58. On a practical level, current transfers will be distinguished from capital transfers in the ICW by the criterion that they are regular and recurring receipts rather than one off, lump sum receipts which will be classified as capital transfers received. It should be remembered, however, that the regular/recurring criterion should be used as a rule of thumb rather than a strict distinguishing criterion.

#### **Classification**

8.59. Transfer income is classified as:

- Social security cash pensions, benefits and allowances
- Other pension and life assurance annuity benefits
  - unfunded pensions paid to former employees
  - funded private pensions and life assurance benefits

- Social security in-kind concessions
- Other government in-kind transfers
- Other current transfers
  - cash
  - in-kind.

## **Transfer income: Social security cash pensions, benefits and allowances**

### **Definition**

8.60. Social security cash pensions, benefits and allowances are regular, recurring receipts paid by government to persons, families or households under the social security and related government programs. They include benefits paid to veterans and their survivors, study allowances for students, etc. They include pensions paid to residents by overseas governments e.g. paid to former migrants who retain eligibility for pensions provided in their country of origin.

8.61. They are usually a cash response by government to a specific claim or entitlement - e.g. age pension, disability allowance, sole parenthood benefit. The government cash responses have immediate income support objectives and, in Australia, are usually defined according to means tested eligibility criteria.

### **Classification**

8.62. These transfers are classified according to the purpose for which they are granted.

8.63. Social security cash pensions, benefits and allowances:

- pensions for aged persons
- benefits for unemployed persons
- benefits for sick and disabled persons
- benefits for lone parents, widows and dependent spouses
- benefits for families with children
- special benefits
- benefits for study purposes
- other pensions, benefits and allowances.

8.64. These transfers should also be classified according to whether they are paid by the Australian (or State) governments or by overseas governments. They may also be classified according to the government authority responsible for the payments e.g. Department of Social Security, Department of Veteran's Affairs, Department of Employment, Education and Training.

### **Comments**

8.65. In Australia, the bulk of government cash transfers are paid by the Commonwealth Government in the form of pensions and benefits which constitute a non-contributory scheme.

## **Transfer income: Other pension and life assurance annuity benefits**

### **Definition**

8.66. Other pensions and benefits are defined as all pensions and regular superannuation payments that are made other than under the government's social security and related schemes. They include annuities from life insurance paid to survivors.

8.67. These pensions may be paid from funded or unfunded schemes and this distinction is important for conceptual and practical reasons.

#### **(a) Private funded schemes**

8.68. These schemes cover pension funds in which contributions are made to the insurance enterprise or fund.

8.69. Pensions received from these schemes constitute a running-down of the household's savings. Strictly speaking, they should be excluded from the definition of income by virtue of the criterion that states that income excludes receipts derived from the running down of assets.

8.70. The ABS, however, takes a more practical view of the pension payments (as does the SNA93). The ABS recognises that households do not classify these pensions as dissaving but as income. In addition, for many households they are the only source of income they receive.

8.71. The exclusion from income of private pensions from funded schemes would severely affect analysis of the distribution of economic well-being, particularly with relation to the elderly. For this reason, they are classified as current income.

8.72. This practice will, however, result in double counting at the aggregate household level given that employer contributions have also been included in current gross income. This should be taken into account in analysis, particularly if life-cycle income is being considered.

#### **(b) Unfunded pensions**

8.73. These are schemes in which employers pay insurance benefits to their employees, ex-employees or their dependents out of their own resources without creating a fund. These are usually government schemes such as that provided for Commonwealth public servants by the government.

8.74. Pensions from these schemes are treated as current transfer income. They can be viewed as a 'deferred' income paid out by virtue of past employment.

#### **Classification**

8.75. Conceptually, it is desirable to distinguish between 'other pensions and benefits' paid out of funded or unfunded schemes. At a practical level, this may prove difficult.

### **Transfer income: Social security in-kind concessions**

#### **Definition**

8.76. Social security in-kind concessions refer to all in-kind concessions received by persons in special eligibility categories e.g. recipients of social security and other related pensions and benefits, aged persons or students. These usually comprise goods and services provided free or at subsidised cost e.g. transport and pharmaceutical concessions, and an imputed value of the service or goods should be derived. The services or goods may be delivered directly by government or via private organisations and authorities whose services are subsidised by government - e.g. subsidised transport for pensioners delivered by private transport companies. Includes benefits provided by all three tiers of government. These concessions are over and above the general subsidy received by all users of the good or service under consideration. (See also the next topic, Other government in-kind transfers.)

#### **Classification**

8.77. These pensioner concessions may be classified according to the nature of the concession (e.g. transport, phone etc) or the government authority subsidising the service.

### **Transfer income: Other government in-kind transfers**

#### **Definition**

8.78. These transfers are defined as indirect benefits provided by government spending other than those distributed as concessions to special eligibility groups under the social security and related schemes. They cover a broad range of benefits such as health, education, housing, welfare services, etc. All persons and households that make use of the services, e.g. medical and hospital benefits for the ill, schooling for children and adults, receive these indirect benefits. The value of the benefits received relates to the level of use. Special eligibility groups may be entitled to an additional level or type of benefit in any of these broad areas. (See the previous topic, Social security in-kind concessions.)

8.79. The scope of these benefits is very wide-ranging, embracing all 'individual consumption goods and services' as defined by the SNA93. These include goods and services, provided by government to households, in areas such as health, education, housing and welfare. Excluded from scope are the 'collective consumption services' such as public administration, defence, environmental interventions, etc.

#### **Classification**

8.80. The classification of other government in-kind transfers is as follows:

- education benefits
- health benefits
- housing benefits
- welfare
- other.

### **Transfer income: Other current transfers**

8.81. This broad category covers all other current transfers in cash or in-kind. It comprises transfers between households and transfers from private organisations to households. It covers both compulsory transfers (e.g. some child support) and non-compulsory transfers.

### **Classification**

8.82. Other current transfers are classified according to whether the transfer is paid by a private organisation or by another household:

- Other current transfers:
- From private organisations
  - private scholarship or study allowance
  - insurance payments (regular)
  - gambling receipts (regular)
  - other
- From other households
  - child support
  - regular receipts from inheritances and trust funds
  - gifts or financial support from other households
  - other.

### **Comments**

8.83. It should be noted that under the present system in Australia, child support may be paid on a voluntary basis or via compulsory collection through the taxation system. It remains, however, a transfer from household to household even though the payment may be backed up by law and/or paid via the Taxation Office or some other third party (see also Current transfers outlaid (excluding taxes) in Chapter 9).

8.84. It should be noted that the inclusion of transfers between households will result in a double-counting of household income at the aggregate level. Adjustments will therefore need to be made to aggregated household income for some analyses.

### **Other non-market income**

#### **Definition**

8.85. Other non-market income is defined as the imputed value of goods and services, other than transfers, consumed by the household and provided other than via the market place. These differ from goods and services received as in-kind transfers in that they are provided from within the household, either as a result of ownership of durable goods and dwellings or via work carried out at home by household members. As for income from unincorporated enterprises and rental property, other non-market income is net of depreciation of household assets used to produce the income.

8.86. To be included in other non-market income, the goods and services provided must be similar to those

available for purchase/hire in the market place.

### **Classification**

8.87. Other non-market income is classified as follows:

- value of unpaid household work
- imputed rent of owner-occupied dwelling
- value of services provided by consumer durables.

### **Other non-market income: Value of unpaid household work**

#### **Definition**

8.88. There are considerable difficulties in giving a satisfactory definition of what constitutes unpaid household work. These difficulties include setting the boundaries on the scope of activities to be included and, in particular, in setting boundaries between work and leisure.

8.89. In defining unpaid household work a widely accepted principle for determining the scope of unpaid household work has been adopted. This principle is the 'third person' or 'market replacement' criterion originally stated by Reid in 1934 and requoted by many writers:

'Household production consists of those unpaid activities which are carried on, by and for the members, which activities might be replaced by market goods or paid services, if circumstances such as income, market conditions and personal inclinations permit the service being delegated to someone outside the household group'.

8.90. The criterion of the activities being 'by and for the members' means that activities such as volunteer and community work are excluded. (These activities are, however, included in the broader definition of total unpaid work discussed in the ABS occasional paper Unpaid Work and the Australian Economy, 1992.)

### **Classification**

- food and drink preparation and clean-up
- laundry, ironing and clothes care
- other housework
- gardening, lawn care and pool care
- pet, animal care
- home maintenance, improvement and car care
- household paperwork, bills, etc
- transport and associated travel
- child care
- purchasing goods and services, and associated travel.

### **Other non-market income: Imputed rent from owner-occupied dwelling**

#### **Definition**

8.91. Imputed rent from owner-occupied dwelling is defined as the imputed value of the services of (mainly) shelter provided to the household by the household's usual residence after deduction of expenses and depreciation.

### **Other non-market income: Value of services provided by consumer durables**

#### **Definition**

8.92. This item is defined as the value of services provided by all household consumer durables (other than the owner-occupied dwelling), after deduction of depreciation and the cost of maintenance and repairs.

8.93. Consumer durables are defined as those household items that are deemed to provide continuous or repeated use over a period of at least one year. They include cars, washing machines, refrigerators, etc.

### **Classification**

8.94. The classification of services provided by consumer durables will be left until further work has been carried out on this item.

## **Net disposable income**

### **Definition**

8.95. Net disposable income is defined as gross income minus the value of direct taxes and compulsory fees and fines.

### **Comments**

8.96. For some analyses it may be desirable to deduct compulsory private transfers (along with taxes) from the gross income of households to derive a measure of net disposable income after all compulsory transfers have been dispersed. This would also overcome the problem of double counting of these transfers at national aggregate level noted earlier in Other current transfers, paragraph 8.84.

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## **Chapter 9. Consumption**

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### **Overview**

#### **Definition**

9.1. Consumption is defined as the 'using up' of services and non-durable consumer goods that have a single use or an otherwise limited life (i.e. less than one year).

9.2. These goods and services may be used up in a number of ways. From the household's point of view, they may be consumed within the household or they may be transferred (in cash or in-kind) to other households and private institutions who then undertake the actual consumption.

9.3. Consumption that takes place within the household is collectively termed actual final consumption. This consists of consumption of goods and services purchased in the market place, consumption of goods and services received as in-kind receipts and consumption of services provided from within the household.

9.4. Consumption that is 'consumed' outside the household is termed current transfers outlaid (excluding direct taxes). These may be outlaid either in cash or in-kind. (Note that direct taxes constitute a flow that is distinguished from the income and consumption flows.)

9.5. Consumption is measured according to the market value of the goods and services consumed. For final consumption expenditure, the value recorded is that paid out by the household in return for the goods and services. It therefore includes the value of indirect taxes paid on purchased goods (see Consumption in Chapter 4).

#### **Classification**

9.6. Consumption is classified according to whether the consumption items are purchased by the household in return for money or whether they have been received by the household as in-kind receipts.

9.7. Consumption is also classified according to whether the consumption takes place within the household or whether it is undertaken indirectly - i.e. by a third party as a result of a transfer from the household to that party.

9.8. Household consumption therefore covers the following categories:

- final consumption expenditure,
  - consumption of in-kind receipts from outside the household,
  - consumption of goods and services provided from within the household,
- which together comprise actual final consumption; and
- current transfers outlaid.

## **Final consumption expenditure**

### **Definition**

9.9. Final consumption expenditure is defined as the 'using up' of services and non-durable goods that are acquired in the market place in return for money and have been purchased during the reference period. It includes the value of indirect taxes paid on purchased goods.

### **Classification**

9.10. This final consumption expenditure is classified according to the type of goods and services consumed. The classification used in ABS expenditure surveys is that set out in the ABS Household Expenditure Survey Commodity Code List (HESCCL). (Note that the definition here differs, however, from the HESCCL in that it excludes all expenditure on consumer durables that are, in the ICW framework, classified as part of acquisition of non-financial assets.)

9.11. Since the cost to the household is required, items are valued at the amount paid by the household minus any rebates that may have been paid (e.g. in the case of medical bills that are partly refunded via Medicare.)

9.12. Final consumption expenditure includes interest paid on consumer loans, including those loans taken out for the purchase of the owner-occupied dwelling. Interest payments are viewed as payment for the service provided by the lending institutions or lending households. Interest paid on loans taken out for the explicit use of households as unincorporated enterprises are excluded here as they have already been deducted as part of the calculation of net entrepreneurial income.

9.13. The broad classification of final expenditure consumption is as follows:

- current housing costs
- fuel and power
- food and non-alcoholic beverages
- alcoholic beverages
- tobacco
- clothing and footwear
- household services and operations
- medical care and health expenses
- transport
- recreation
- personal care
- miscellaneous commodities and services.

### **Comments**

9.14. Given the necessity of a common reference period for all household flows, a decision has to be made as to the timing of the consumption. Should the consumption be deemed to have taken place when the items are:

- actually consumed,
- paid for, or

- acquired

9.15. Taken over the longer period, these occurrences of acquiring, paying for, and consuming the goods will theoretically coincide. For shorter periods, however, these three occurrences may not all occur within the same reference period.

9.16. The first approach of using the time the goods and services are actually consumed causes practical problems. Even non-durable goods are frequently consumed over an extended period e.g. the flour or coffee is not all used up as soon as the packet is opened. Practical problems of collecting data on a consumption basis rule out this approach.

9.17. The second and third approaches of payment and acquisition will coincide for many purchases when cash is paid out for the goods and services. For example, if a newspaper is purchased and paid for over the counter, then the two approaches will give identical results.

9.18. The approaches will not coincide, however, where goods and services are purchased using credit. For example, if a household acquires newspapers daily but only pays the bill every three months, then the two events will not coincide in the short reference periods used in household surveys.

9.19. The ABS recommends the payment approach wherever possible. This approach will better serve the balancing of household accounts in a household income and expenditure survey where clients may wish to derive, say, a residual measure of household saving.

9.20. If, however, this approach is not practical, then the alternative acquisitions approach may be used. The balancing of household accounts will, however, require that some adjustments will need to be made to the household accounts for the above purpose.

## **Consumption of in-kind receipts from outside the household**

### **Definition**

9.21. Consumption of in-kind receipts from outside the household is defined as the 'using up' of goods and services that are acquired from outside the household without the intervention of money.

9.22. As explained earlier, in-kind income has an equivalent in in-kind consumption. Thus, if a person is paid for work done by being given food or the use of a car, the imputed value of that food and car are simultaneously counted as both income and consumption. In-kind goods and services for consumption may be derived from government, private organisations or other households.

9.23. Care should be taken to ensure that for every item of income in-kind, a similar entry of in-kind consumption is counted.

### **Classification**

9.24. In-kind consumption is classified in the same manner as was income in-kind, i.e. goods and services acquired via:

- employment benefits
- social security in-kind concessions
- other government in-kind transfers
- regular gifts and services provided free by other households
- regular gifts and services provided free by private organisations (e.g. charities).

9.25. For some analyses, classification according to categories set out for market goods and services in the HESCCCL may also be required.

## **Consumption of goods and services provided from within the household**

### **Definition**

9.26. Consumption of services provided from within the household are defined as the services provided by household fixed assets and by unpaid household work. Household assets are defined as all durable goods owned

or being purchased by the household, including the dwelling.

### **Classification**

9.27. Consumption of household services are classified as follows:

- services provided by unpaid household work
- services provided by the owner-occupied dwelling
- services provided by other consumer durables.

## **Current transfers outlaid (excluding taxes)**

### **Definition**

9.28. Current transfers outlaid relate to cash and goods disbursed to government, to other households and private institutions or to charitable organisations for consumption by those other entities.

9.29. In the case of goods disbursed, these goods must have been both purchased and disbursed during the reference period.

9.30. Transfers to other households may be either compulsory, as is the case with some child support payments, or voluntary. Voluntary transfers to other households include regular and recurring gifts, either in cash or in-kind.

### **Classification**

9.31. Current transfers outlaid may be classified according to the nature of the recipient and according to whether the transfers are compulsory or otherwise:

- cash and gifts purchased and donated to private organisations such as charitable institutions
- voluntary transfers in cash and in-kind to other households in the form of gifts, etc.
- compulsory transfers in cash and in-kind to other households (e.g. child support).

### **Comments**

9.32. For some analyses it may be desirable to deduct compulsory private transfers (along with taxes) from the gross income of households to derive a measure of net disposable income after all compulsory transfers have been dispersed. This would also overcome the problem of double counting of these transfers at national aggregate level noted in Other current transfers, paragraph 8.84.

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## **Chapter 10. Direct taxes, compulsory fees and fines**

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### **Direct taxes**

#### **Definition**

10.1. Direct taxes are compulsory unrequited transfers made by households to government, usually out of income received during the period. The government makes no (direct) return to the individual taxpayer although the revenue raised through taxation is used to provide goods and services to the community as a whole, or to other individuals or groups.

10.2. Direct taxes consist mainly of taxes levied on the incomes of households (and unincorporated enterprises owned by households). They are net of rebates but may include provisional taxes paid for future income.

#### **Classification**

### 10.3. Direct taxes:

- income tax (including Medicare levy and associated fines/penalties),
- capital gains tax (including associated fines/penalties).

## Compulsory fees and fines

### Definition

10.4. Compulsory fees are those which are associated with regulatory functions of government or the granting of a permit or privilege. Examples are motor vehicle registration fees, drivers' or pilots' licence fees, fishing licences, etc. Where such fees are associated with production of entrepreneurial or property income, they are treated as indirect taxes (which constitute part of operating costs).

10.5. Fines are civil criminal penalties imposed on law breakers. Conceptually these include fines and penalties imposed by taxation authorities but because of the practical difficulties involved in separately identifying these payments they are treated as part of direct taxes.

### Classification

10.6. Compulsory fees and fines are classified as:

- stamp duties
- licence fees
- civil and criminal fines (excluding tax related fines/penalties).

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## Chapter 11. Saving

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### Definition

11.1. Saving is defined as that part of current income (after direct taxes) that is not used up or transferred as part of household current consumption. Saving includes current disbursements made in the form of a reduction in household liabilities, i.e. repayment of capital on loans for housing and consumer durables. These repayments may be made to financial institutions, governments or other households.

11.2. Saving also includes regular and recurring employer and employee contributions to pension funds and interest earned on those pension funds that is not immediately accessible to the household.

11.3. Because saving is defined in terms of flows in the current account, it excludes capital gains and losses during the reference period.

11.4. In any given reference period, saving will be positive where income is greater than consumption and taxes. Saving will be negative, or dissaving where consumption and taxes are greater than income.

### Comments

11.5. Saving is not directly affected by the receipt or consumption of income-in-kind. However, the level of saving achieved by households may be indirectly affected by the receipt of income-in-kind which may obviate the need to purchase consumption items out of cash income.

## Chapter 12. Wealth/net worth

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### Definition

12.1. Net worth is defined as the difference between a household's stock of assets and its stock of liabilities at a point in time. The terms net worth and wealth are used as interchangeable terms in this paper.

12.2. Assets are defined as entities owned or being purchased by the household from which benefits may be derived by their owners by holding or using them over a period of time. They comprise financial and non-financial assets. Assets exclude the value of human capital.

12.3. Assets are divided into two categories: financial assets, and non-financial assets.

12.4. Financial assets are defined as assets that entitle their owners (the creditors) to receive a payment, or series of payments, from the other unit (the debtor) in certain circumstances, often specified in a contract between them.

12.5. Non-financial assets are defined as all other assets whether produced or non-produced and whether tangible or intangible.

12.6. Liabilities are defined as obligations on the part of the household to make a payment, or a series of payments to the owner of the financial assets. These obligations are often specified in a contract between the two parties.

### Classification

12.7. Assets are classified as either non-financial or financial.

- Non-financial assets:
  - owner-occupied dwelling (including land)
  - other buildings and land
  - household consumer durables
  - plant, machinery and stocks (of unincorporated enterprises)
  - valuables (precious metals and stones, antiques, art objects, etc)
  - intangible non-produced assets (patents, goodwill, etc).
- Financial assets:
  - cash
  - deposits in financial institutions
  - securities (shares, stocks and bonds)
  - loans to other entities
  - equity in life insurance reserves and pension funds
  - other.

12.8. Liabilities are classified as principal and accumulated interest owing on:

- mortgage(s) on owner-occupied dwelling
- other mortgages
- other loans

- other debts and liabilities.

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## Chapter 13. Capital transfers

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### Capital transfers received

#### Definition

13.1. Capital transfers received are defined as receipts which involve the transfer of ownership of an asset from a household, government or private organisation to the recipient household. The receipt of the capital transfer results in an increase in the value of stocks of assets of the household.

13.2. Operationally, capital transfers received are defined as irregular and non-recurring receipts. Non-recurring in this context relates to transfers received less than annually. The condition of irregularity/non-recurring is, however, only a secondary criterion and should be used only as a rule of thumb. Where there is difficulty in distinguishing whether a receipt is income or a capital transfer, it should be classified as income.

13.3. Capital transfers received may be in cash or in-kind.

#### Classification

13.4. Capital transfers cover a very heterogeneous group of receipts. Capital transfers received are classified primarily according to the donor of the transfers. A secondary classification refers to the nature of the receipt.

- Receipts from other households:
  - inheritances and legacies
  - non-recurring gifts from other households
  - capital repayment of loans from other households
  - lump sum alimony or property settlements
  - other.
- Receipts from private institutions and enterprises:
  - irregular winnings from lotteries and other gambling
  - maturity payments received on life insurance policies
  - lump sum compensation for injuries
  - other casualty claims received including worker's compensation
  - lump sum termination payments
  - legal damages
  - other.
- Receipts from government:
  - investment grants for unincorporated enterprises

- other.

13.5. These receipts may also be classified according to whether they are fixed or financial assets in order to align them with the other stock/flow classifications.

## Capital transfers outlaid

### Definition

13.6. Capital transfers outlaid are defined as the transfer of ownership of an asset by the household to another household, private institution or government.

13.7. Capital transfers are usually large enough to have to have been financed from the donor's household stock of capital rather than from its income. The capital transfer outlaid will, therefore, usually not be a regular or recurring outlay. Again, however, the criterion of irregular/non-recurring is a secondary and practical criterion that should only be used as a rule of thumb. Where there is difficulty in distinguishing whether an outlay is a current or a capital outlay, it should be classified as a current transfer.

13.8. Capital transfers outlaid are a fairly homogeneous group of disbursements which may be paid to private institutions (such as charities) or to other households.

### Classification

13.9. Capital transfers outlaid are classified according to the nature of the transfer and the nature of the recipient:

- donations to charities from the household's assets
- gifts of assets to other households
- lump sum property and other settlements paid out (e.g. as part of divorce settlements)
- other

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## Chapter 14. Net acquisition of non-financial assets

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### Definition

14.1. Net acquisition of non-financial assets is defined as the acquisition (through purchase or transfer) minus the disposal (through sale or transfer) of non-financial assets held by the household and unincorporated enterprises owned by households. Non-financial assets are defined as all assets other than those defined as financial assets in Chapter 12, Wealth / Net worth.

14.2. The term 'net' refers to the fact that the acquisition is net of disposals. However, it is 'gross' in the sense that deductions have not been made for the consumption of existing assets during the production process. (This depreciation is netted from the value of the services provided to the household in the form of non-cash income, and from the income of unincorporated enterprises owned by households.)

14.3. Net acquisition of non-financial assets includes the value of indirect taxes and this value may need to be separately identified for some analyses (see Consumption in Chapter 4).

### Classification

14.4. Net acquisition of non-financial assets is classified according to the nature of the assets acquired:

- owner-occupied dwelling (including land)
- other buildings and land

- household consumer durables
- plant, machinery and stocks (of unincorporated enterprises)
- valuables (precious metals and stones/jewelry, antiques, art objects, etc.)
- intangible non-produced assets (patents, purchased goodwill, etc.)
- other.

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## Chapter 15. Net lending

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### Definition

15.1. Net lending is defined as the excess of net acquisition of financial assets over the net increase in liabilities during the reference period. This acquisition and incurrence of liabilities may take place between the household and government, or between the household and private enterprises or other households. If the net acquisition of financial assets is greater than the incurrence of liabilities then the net lending will be positive. If the incurrence of liabilities is greater, then the net lending will be negative.

15.2. Where net lending is positive during the reference period it represents a source of funding for household investment.

### Classification

15.3. Net lending may be classified according to the nature of the transactions and/or the nature of the other party to the transactions. The primary classification will be in accordance with the nature of the transaction as there is some interest in whether the additional assets are those that provide a regular source of income and the degree of liquidity involved.

- Net lending:
  - addition to or withdrawal from holdings of cash
  - addition to or withdrawal from holdings deposited with banks, other financial institutions and other households
  - additions to or disposals of securities (shares, stocks, bonds)
  - deposits to and withdrawals from life insurance reserves and pension funds
  - net value of incurrence and repayment of loans taken out by the household
  - other.

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## Chapter 16. Other changes in the volume of stocks

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### Definition

16.1. Other changes in the volume of stocks are defined as changes in assets and liabilities that are not due to transactions between the household and another entity, as recorded in the capital account, or to holding gains and losses. They may be caused by unexpected events such as theft of an uninsured asset, loss of an asset via a natural catastrophe.

### **Classification**

16.2. Other changes in the volume of stocks may be classified as those due to:

- catastrophic events
- uncompensated seizures
- other.

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## **Chapter 17. Nominal holding gains and losses**

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### **Definition**

17.1. Nominal holding gains and losses are defined as those gains and losses that accrue to the value of assets and liabilities during the reference period that are not brought about as a direct result of the actions of the householders. They are often referred to as capital gains and losses and may be realised or unrealised. Gains and losses are realised when the household sells off the assets or disposes of the liabilities. They are unrealised when no transactions involving the assets or liabilities take place.

17.2. A positive holding gain, whether due to an increase in the value of a given asset or a reduction in the value of a liability, increases the net worth of the household. A holding loss, whether due to a reduction in the value of an asset or an increase in the value of a given liability, reduces the net worth of the household.

### **Classification**

17.3. Nominal holding gains and losses are classified as:

- realised, or
- unrealised.

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## **Chapter 18. Notional wealth annuity**

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### **Definition**

18.1. A notional wealth annuity is defined as the transformation of the value of a household's stock of assets/liabilities into a right to be paid a (notional) fixed annual sum of money for a defined lifetime. All wealth, whether held as non-financial or as financial assets should be annuitised.

18.2. When using the measure of annuitised wealth, the annuity must contain a discounting for the return from the wealth already counted in the current account. These returns comprise property income, imputed rent from owner-occupied dwelling and the income from services provided by consumer durables. If these items are not deducted from the full annuity they will result in double counting of these components.

18.3. The value of the annuity is calculated using the value of the stock at the beginning of the reference period.

### Classification

18.4. Notional wealth annuity may be classified as the notional flow from:

- non-financial assets :
  - equity in owner-occupied dwelling
  - other
- financial assets.

### Comments

18.5. A considerable amount of research needs to be carried out to determine the most suitable method of calculating annuitised wealth. In particular, consideration needs to be given to:

- the period over which the wealth should be annuitised
- notional interest rates to be used
- treatment of 'negative wealth' i.e. household liabilities where these are greater than household assets.

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## Appendix 1. Comparison of components of ICW framework with ANA and SNA93

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**TABLE 1. POPULATION AND UNITS**

ICW	ANA	SNA93
<b>Population in scope</b>		
All private Households including unincorporated business enterprises owned by households.	Corresponds to household sector except that ANA also includes some additional unincorporated enterprises e.g. small non-profit organisations.	Corresponds to household sector. (SNA93 has a separate sector for non-profit enterprises serving households.)
<b>Statistical units</b> (see Chapter 7)		
Households viewed as multiple economic units engaged in a range of transactions both outside and within the single physical unit e.g. exchange of labour for wages/ salaries in productive activity outside the unit and exchange of labour for goods and services (income in-kind) produced within the unit.	With the exception of unincorporated enterprises, ANA views households as units of consumption only. With the exception of owner-occupied dwellings (for which a market value for rent is imputed) and homes built by owner-builders, non-market production and transactions within the household are ignored.	With the exception of unincorporated enterprises, SNA93 main accounts view households as units of consumption only. Owner-occupiers and households employing paid domestic staff are deemed to own household unincorporated enterprises.
Households are seen as units of production, ownership and consumption.	Only unincorporated enterprises are seen as units of production and ownership of fixed assets. With the exception of owner-occupied dwellings, private households	Only unincorporated enterprises are seen as units of production and ownership of fixed assets. Subsistence farmers/producers, owner-builders, owner-occupiers

	cannot own fixed assets. Households owning their own dwelling are treated as unincorporated enterprises.	and households employing paid domestic staff are deemed to own household unincorporated enterprises. The production boundary can be extended in satellite accounts to include own-account production of personal and domestic services by members of the household.
In addition to households (and unincorporated enterprises owned by households) the ICW is also concerned with the following units:	Not identified in ANA.	Not identified in SNA93.
<ul style="list-style-type: none"> <li>• Person (see Chapter 7, paragraph 7.3)</li> <li>• Family (see Chapter 7, paragraph 7.10)</li> <li>• Income unit (see Chapter 7, paragraph 7.13)</li> </ul>		

**TABLE 2. CURRENT ACCOUNT COMPONENTS**

ICW	ANA	SNA93
<b>The current account</b>		
The current account deals with receipts in the form of income (cash and in-kind), and disbursements in the form of consumption of goods and services (purchased and in-kind) and saving.	Equivalent of Income and Outlay Account for Households (including unincorporated enterprises). Differing to the extent that definitions of Income and Consumption differ. (See below)	Spread over three accounts: Primary Distribution of Income, Secondary Distribution of Income and Use of Income, and differing to the extent that definitions of Income and Consumption differ. (See below)
<b>Income</b> (see Chapter 8) Those receipts (cash and in-kind) that are of a regular and recurring nature, and are received by the household or its members at annual or more frequent intervals.	Similar to household income except non-market in-kind income is excluded, and termination/ severance pay is included.	Similar to income receivable by households (which is spread over three accounts) but SNA93 excludes much of the non-market, in-kind income produced within households. However provision is made in satellite accounts to extend the definition of income (imputed) in line with extended production boundaries. Also includes some lump sum receipts. (See Employee Income below)
Includes regular receipts from employment, own business, and lending of assets. Includes regular and recurring transfers from government, private institutions, and other households. Includes value of services provided within the household via owner-occupied dwelling, use of consumer durables, and unpaid household work. Excludes receipts from running down of assets (except in the case of funded pension schemes).	Also includes some lump sum receipts. (See Employee Income below) Excludes transfers from other households.  Excludes value of services provided via use of consumer durables and unpaid household work.  Excludes all receipts from running down of assets including those from funded pension schemes.	Excludes much of the non-market, in-kind income produced within households. However provision is made in satellite accounts to extend the definition of income (imputed) in line with extended production boundaries. Also includes some lump sum receipts. (See Employee Income below) Excludes transfers from other households.  Excludes value of services provided via use of consumer durables and unpaid household work from main accounts but can be included in satellite accounts. Includes benefits from social insurance schemes (funded and unfunded) in the Secondary Distribution of Income account.
<b>Primary income</b> (see paragraph 8.13) Receipts accruing in cash or in-kind in the current reference period to employees and self-employed persons by virtue of the deployment of their labour and entrepreneurial skill in productive activity.	Concept not used in current ANA but some components of primary income are included. (See below)	Similar to a combination of compensation of employees and mixed income. (See below)
<b>Employee income</b> (see paragraph 8.15)		

Remuneration in cash and in kind paid to employees, as a rule at regular intervals, for time worked or work done, together with remuneration for time not worked such as for annual vacation, other paid leave or holidays.	Same as wages, salaries and supplements except that ANA also includes lump sum worker's compensation payments, and termination, severance and redundancy payments. ICW includes these as capital transfers received.	Same as compensation of employees except that SNA93 includes only value of employer contributions (imputed in the case of unfunded schemes) for "employee social benefits" e.g. paid sick leave, severance, redundancy, termination payments, workers compensation and paid maternity leave.
Includes:		
• Wages and salaries;	Same	Same
• Tips, commissions and regular bonuses;	Same	Same
• Other profit sharing bonuses;	Same	Same
• Piecework payments;	Same	Same
• Payment for recurring odd jobs and other casual work;	Same	Same
• Penalty payments and shift allowances;	Same	Same
• Directors' fees;	Same	Same
• Remuneration for time not worked (sick pay, holiday pay, public holidays and other paid leave);	Same for sick leave, maternity leave, etc.	Employer contributions to funds (imputed for unfunded schemes).
• Worker's compensation (regular only);	Also includes lump sums.	Employer contributions to funds.
• Leave loading.	Same	Same
Includes income in-kind received as employee benefits. Also includes employer contributions to superannuation schemes.	Same  Includes employer contributions to funded schemes and imputes a value for unfunded schemes.	Same  Includes employer contributions to funded schemes and imputes a value for unfunded schemes.

#### **Entrepreneurial income** (see paragraph 8.24)

Income that accrues to persons or households as owners of, or partners in, unincorporated enterprises. Entrepreneurial income is net of expenses incurred in generating the income.	Same as unincorporated enterprise income.	Same as mixed income in the Allocation of Income Account.
Entrepreneurial income is equal to gross output minus gross operating expenses and an allowance for depreciation of assets.	Unincorporated enterprise income is equal to net operating surplus less net interest, land rent and royalties paid, less third party insurance transfers to persons.	
Gross output is equal to the value of goods and services produced by the enterprise for the market, for provision to employees free or at subsidised cost or for own consumption. Also includes unknown amounts of remuneration of labour of owners/partners and property income.	Same  (n.b. special mention is made of the inclusion of gross operating surplus derived by the construction of dwellings by owner-builders.)	Same
Operating expenses comprise:		
• Labour costs in the form of wages, salaries and supplements;	Same	Same
• The value of raw materials purchased;	Same	Same
• The cost of repairs or maintenance of equipment (including vehicles);	Same	Same
• The purchase of fuel;	Same	Same
• Indirect taxes;	Same	Same
• Rent paid for buildings and land used in the business.	Same	Same

- Depreciation of assets is equal to the value of capital consumed in the production of the gross product.

Same

Same

### Property income (see paragraph 8.44)

Receipts accrued as a result of ownership of assets.

Consists of receipts from ownership of financial assets, land and intangible assets.

Consists of receipts from ownership of financial assets or tangible non-produced assets (land and subsoil assets).

The major components are:

- Interest;
- Dividends;
- Rent and
- Royalties.

Rent, other than land rent, is not included here. ANA treats rent received by households from ownership of fixed assets, including imputed rent of owner-occupied dwellings, as part of the operating surplus of unincorporated enterprises owned by households.

Income received from rent of tangible non-produced assets, including imputed rent from owner-occupied dwellings, is treated as a part of mixed income of unincorporated enterprises owned by households. Royalties received are also treated this way.

### Interest (paragraph 8.46)

Includes interest on:

- Deposits with banks, building societies, credit unions etc;

Same

Same

- Government bonds/loans and securities, debentures;

Same

Same

- Interest on private pensions and annuities;

Interest is imputed.

Part of property income attributed to insurance policyholders.

- Income on equity in super-annuation, insurance funds, etc;

Same

As above.

- Personal loans to others outside the household.

Not included.

Not included.

### Dividends (paragraph 8.47)

Consists of income received from company investments such as ownership of shares.

Same

Same, except bonus shares are treated as capital transfers. However, where dividends are paid in the form of shares they are treated as dividends.

### Rent (paragraph 8.48)

Comprises rent payments received from property other than owner-occupied dwellings.

Only land rent included in property income. Payments received from other rental property treated as part of operating surplus of unincorporated enterprises.

Comprises rent from land and subsoil assets only. Payments received from other rental property treated as part of operating surplus of unincorporated enterprises.

Includes income from sub-letting parts of the owner's dwelling to others outside the household.

Included in operating surplus of unincorporated enterprises.

Included in operating surplus of unincorporated enterprises.

Net of expenses such as mortgage interest, maintenance costs and depreciation.

Business income from property rental is net of expenses as is property income from land rental.

Business income from property rental is net of expenses as is property income from land rental.

Excludes income from boarders who are counted as members of the household.

Excluded

Excluded

### Royalties (paragraph 8.51)

Consists of income received for the use of patented or copyright materials.

Same

Part of mixed income.

### **Transfer income** (see paragraph 8.54)

Regular and recurrent receipts either in cash or in-kind which are unrequited. They may be received from government, other households or from funded pension schemes.

Some components included. (See below) Excludes transfers from other households and from employer and private pension schemes.

Some components included. (See below)

Includes:

- Social security cash pensions, benefits and allowances;
- Other pension and life assurance annuity benefits;
- Social security in-kind concessions;
- Other government in-kind transfers;
- Other current transfers.

### **Social security cash pensions, benefits and allowances** (See paragraph 8.60)

Regular and recurring receipts paid by government to persons, families or households under the social security and related government programs.

Included in ANA as part of personal benefits payments to residents (except pensions paid from overseas which are included in the item unrequited transfers from overseas).

Included in Secondary Distribution of Income Account. Comprises : Social security benefits in cash; Social assistance benefits in cash.

Includes DSS pensions and benefits, student study allowances, payments to veterans and their survivors etc. Also includes pensions paid to residents by overseas governments.

n.b. includes transfers from NPISHs as well as government.

### **Other pension and life assurance annuity benefits** (see paragraph 8.66)

All pensions and regular superannuation payments (other than government social security and related schemes).

Benefits are not treated as income receivable by households. Payments out of unfunded or partly funded schemes (net of employee contributions) are included as part of supplements (as proxy for imputed employer contributions).

Included in Secondary Distribution of Income Account as social insurance benefits. In-kind benefits are treated as if they were paid in cash.

Includes both funded and unfunded schemes.

Includes both funded and unfunded schemes.

### **Social security in-kind concessions** (see paragraph 8.76)

All in-kind concessions received by persons in special eligibility categories e.g. recipients of social security and other related benefits, aged person or students.

Cash payments to organisations providing free or subsidised goods or services to pensioners are included in personal benefits payments to residents.

Included in Secondary Distribution of Income Account as social transfers in kind.

Includes free or subsidised goods and services such as pharmaceuticals, health services, transport, rent and telephone.

Expenditures on goods/services provided directly by government bodies are included in final consumption expenditure for government.

n.b. includes transfers from NPISHs as well as government.

### **Other government in-kind transfers** (see paragraph 8.78)

Indirect benefits to households provided by government other than under social security and related schemes.

Included in ANA as part of final consumption expenditure for government rather than household sector.

Included in Use of Income Account as consumption expenditures incurred by general government and NPISHs and is carried over to household actual final consumption.

Includes education, health and housing services and welfare.

Same

Same

### Other current transfers (see paragraph 8.81)

All other regular transfers.  
Comprises transfers between households or from private organisations to households.  
Covers both compulsory and non-compulsory transfers.

ANA excludes transfers between households but includes some of the other components.

Some components included in Secondary Distribution of Income Account as other current transfers.

Other current transfers include:

- Child support payments
- Inheritances & trust funds (regular receipts);
- Gifts/financial support from other households;
- Private scholarship or study allowance;
- Insurance receipts (recurring);
- Gambling receipts (regular).

Excluded

Excluded

Excluded

Excluded

Included as part of third party insurance transfers to persons.

Contribute negatively to household expenditure on gambling which is included as part of private final consumption expenditure.

Miscellaneous current transfers

Miscellaneous current transfers

Miscellaneous current transfers

Does not recognise transfers from corporate to household sector

Non-life insurance claims (note that all claims are treated as current transfers).

Miscellaneous current transfers between households.

### Other non-market income (see paragraph 8.85)

The imputed value of goods and services, other than transfers, consumed by the household and provided from within the household, through ownership of durable goods or dwelling or through unpaid work carried out at home by household members.

Some components are included (under different categories).

Some components are included (under different categories).

### Value of unpaid household work (see paragraph 8.88)

Non-market use of household time that results in the production of goods or service that could be purchased in the market place.

Some estimates of backyard production of food by households and own account production by unincorporated enterprises are included in private final consumption expenditure.

Excluded from main accounts (other than some own account production of unincorporated enterprises).

Includes imputed income for activities such as housework, gardening and care of children which contribute to the well-being of the household.

Satellite accounts allow for extension of production boundary to include value of unpaid household work.

### Imputed rent from owner-occupied dwelling (see paragraph 8.91)

The imputed value of the services of (mainly) shelter provided to the household after the deduction of related expenses and depreciation of the dwelling.

Component of operating surplus: dwellings owned by persons.

Included as operating surplus of unincorporated enterprises owned by households. Does not contribute to mixed income as no labour inputs are involved.

### Value of services provided by consumer durables (see paragraph 8.92)

The value of services provided by all household consumer durables other than owner-occupied dwellings.

Excluded

Excluded from main accounts. Satellite accounts allow for extension of production boundary to include value of services provided by consumer durables.

## Consumption (see Chapter 9)

Consumption is defined as the using up of services and non-durable consumer goods i.e. goods which have a single use or an otherwise limited life of less than

Close to the measure of current expenditure by households private final consumption expenditure (PFCE) except that:

Close to the measure of actual final consumption by households (AFC) except that:

one year.

Goods and services include those purchased in the market, received in-kind from outside the household, and those produced/ provided from within the household, e.g. unpaid work and services provided by consumer durables e.g. cars, appliances and owner-occupied dwellings.

ANA treats consumer durables such as cars and appliances purchased by private households as being completely consumed within the reference period while ICW treats them as capital which is partly used up in the current reference period;

SNA93 treats consumer durables such as cars and appliances purchased by private households as being completely consumed within the reference period while ICW treats them as capital which is partly used up in the current reference period;

ANA excludes consumption of services provided by unpaid work within the household, e.g. child care, cleaning, cooking, etc;

SNA93 excludes consumption of services provided by unpaid work within the household, e.g. child care, cleaning, cooking, etc. from the main accounts but allows for inclusion in satellite accounts.

ANA treats consumption of in-kind transfers from government, NPISHs, etc. as final consumption of the provider rather than the household which receives them;

Same as ICW

Consumption also includes current transfers in cash or in-kind to other households or private non-profit institutions.

ANA excludes transfers between households and within the household sector.

SNA93 excludes transfers between households.

Consumption is financed from current income or through dissaving (running down of assets) from capital account.

Same

Same

Actual final consumption

Consists of:

- final consumption expenditure;
- consumption of in-kind receipts (from outside the household);
- consumption of services provided from within the household.

Some components included.

(See below)

Some components included.

(See below)

### **Final consumption expenditure** (see paragraph 9.9)

Using up of services and non-durable goods purchased in the reference period.

Forms part of PFCE which also includes purchase of consumer durables.

Forms part of FCE which also includes purchase of consumer durables.

Includes expenditure on:

Different treatment.

The classification is currently under revision.

- Current housing costs;
- Fuel and power;
- Food & non-alcoholic beverages;
- Alcoholic beverages;
- Tobacco;
- Clothing and footwear;
- Household services & operations;
- Medical care & health;
- Transport;
- Recreation;
- Personal care;
- Miscellaneous goods and services.

Different treatment.

- Includes associated indirect taxes.

Classification to be reviewed in light of SNA revisions which are currently underway.

### **Consumption of in-kind receipts from outside the household** (see paragraph 9.21)

Using up of goods and services acquired from outside the household without the intervention of money.

Partly included in PFCE. (See below)

Partly included in AFC. (See below)

Refers to consumption of income in-kind from:

- |  |  |   |
|--|--|---|
| • Employment benefits;                 | Included in PFCE   | Included in FCE   |
| • Social security in-kind concessions; | Included in PFCE   | Part of Actual Final Consumption (AFC) as social transfers. |
| • Other government in-kind transfers;  | Partly final consumption expenditure for Government and partly PFCE. | FCE for government and AFC for households.                  |
| • Regular gifts and free services;     |  |   |
| • From other households                | Excluded   | Part of current transfers between households                |
| • From charities.                      | Included in final consumption of NPISHs.                             | Part of AFC (social transfers).                             |

### **Consumption of services provided from within the household** (see paragraph 9.26)

Using up of goods and services provided from within the household.

Refers to consumption of income in-kind from:

- |   |                   |                                     |
|---|-------------------|-------------------------------------|
| • Services provided by unpaid household work;   | Excluded          | Excluded - provision in satellites. |
| • Services provided by owner-occupied dwelling; | Included in PFCE. | Included as FCE of households.      |
| • Services provided by other consumer durables. | Excluded          | Excluded - provision in satellites. |

### **Current transfers outlaid (excluding taxes)** (see paragraph 9.28)

Cash, goods and services transferred to other households, charities and non-profit organisations who then undertake consumption.

Partly included in PFCE.

Partly included in FCE of households.

Transfers which are regular and recurring are treated as current consumption while transfers which are not recurring, and which involve transfer of ownership of assets, are treated as capital transfers.

Current transfers are generally small, regular and recurring, but what distinguishes them from capital transfers is that they do not involve transfer of ownership (or dispersal/acquisition of assets).

Transfers may be compulsory or non-compulsory and include:

• Donations to charities, etc. of cash or purchased goods and services	Purchased goods and services included in PFCE.	Included in FCE of households (current transfers between households).
• Voluntary transfers such as gifts to other households of cash or purchased goods and services	Transfers within the household sector are ignored.	Current transfers to NPISHs.
• Compulsory transfers to other households such as child support payments	Transfers between households are ignored.	Current transfers between households.

## Direct taxes, compulsory fees and fines (see Chapter 10)

### Direct Taxes (see paragraph 10.1)

Compulsory unrequited transfers made by households to government, usually out of income received during the period.	Same	Same
---	------	------

Consists of:

• Income tax (including Medicare Levy and fines imposed by taxation authorities)	Same	Same
• Capital gains tax.	Same	Same

### Compulsory fees and fines (see paragraph 10.4)

Fees and fines which are associated with regulatory functions of government or the granting of a permit or privilege. Where such fees are associated with generation of income, they are treated as indirect taxes (which constitute a part of operating cost).	Same	Same
---	------	------

Consist of:

• Property transfer tax	Part of property purchase	
• Other stamp duties.	Part of associated purchase (real estate)	
• Licence fees	Some treated as fee for service	Some treated as fee for service
• Civil and criminal fines (excluding tax fines or penalties).	Same	Same

### Saving (see Chapter 11)

Saving is defined as the difference between income (after direct taxes) and consumption, and may be either positive or negative in any reference period.	Household saving is the excess of household income over current disbursements and is derived as a balancing item in the household income and outlay account. Same in principle but differences exist to the extent that definitions of income and consumption differ from the ICW.	Same in principle but differences exist to the extent that definitions of income and consumption differ from ICW.
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Where disposable income exceeds consumption, saving is positive and represents a flow to the capital account. Where consumption

exceeds disposable income, saving is negative (dissaving) and represents a flow from the capital account to the current account.

**TABLE 3. CAPITAL ACCOUNT COMPONENTS**

ICW	ANA	SNA93
The capital account deals with acquisition of non-financial assets and financial assets of the household and the financing of these acquisitions. Capital and current accounts are linked through flows of saving or dissaving.	Basically the same, with capital account linked to income and outlay account through saving or dissaving. Some components treated differently. (See below)	SNA93 capital account records the values of non-financial assets that are acquired or disposed of through transactions, and shows the change in net worth due to saving and capital transfers.  A separate financial account records transactions that involve financial assets and liabilities.
<b>Wealth/Net worth</b> (see Chapter 12)		
Defined as the difference between a household's stock of non-financial assets and financial assets, and its stock of liabilities.	Same at sector level. For any one sector, net worth is equal to the total value of all assets held less the value of financial liabilities (and share capital for corporate enterprises.)	Same. The total value of the assets owned by an institutional unit or sector minus the total value of its liabilities is described as its net worth.
Non-financial assets include:		
<ul style="list-style-type: none"> <li>Owner occupied dwelling (including land);</li> <li>Other dwellings and land;</li> <li>Household consumer durables;</li> <li>Plant, machinery and stocks (unincorporated enterprises);</li> <li>Valuables;</li> <li>Intangible non-produced assets.</li> </ul>	<p>Apart from owner occupied dwellings, private households are not considered to own non-financial assets.</p> <p>Consumer durables, valuables, etc. are treated as being immediately consumed.</p>	<p>Apart from owner occupied dwellings, private households are not considered to own non-financial assets.</p> <p>Consumer durables, valuables, etc. are treated as being immediately consumed.</p>
Financial assets include:		
<ul style="list-style-type: none"> <li>Cash holdings;</li> <li>Deposits in financial institutions;</li> <li>Securities (shares, stocks and bonds);</li> <li>Loans to other entities;</li> <li>Equity in life insurance reserves and pension funds.</li> </ul>	<p>Same</p> <p>Excludes loans to other households.</p>	<p>Same</p> <p>Excludes loans to other households.</p>
Liabilities include principal owing on:		
<ul style="list-style-type: none"> <li>Mortgage(s) on owner-occupied dwelling;</li> <li>Other mortgages;</li> <li>Other loans;</li> </ul>	<p>Same</p> <p>Excludes loans from other households.</p>	<p>Same</p> <p>Excludes loans from other households.</p>

- Other debts and liabilities.

### **Change in Net worth**

Over a reference period, change in net worth is linked both to transactional flows in the capital account and to non-transactional flows in the other changes in stocks account.

Same in principle but different to the extent that components of net worth differ.

Same in principle but different to the extent that components of net worth differ.

## **Capital transfers** (see Chapter 13)

### **Capital transfers received** (see paragraph 13.1)

Irregular or non-recurring receipts, generally one-off and relatively large lump sums received either as cash or in-kind. They involve the transfer of ownership of an asset and are viewed as an addition to capital stocks even though they may be subsequently dissaved.

A household may receive capital transfers from other households, private institutions and enterprises, and from government.

Same in principle but some items are excluded. (See below)

Same in principle but some items are excluded. (See below)

Transfers from other households include:

- inheritances and legacies;
- non-recurring gifts;
- capital recovery (from loans to other households);
- lump sum alimony or property settlements.

ANA doesn't recognise transfers

between households.

Does not recognise capital

transfers between households.

Transfers from private institutions and enterprises include:

- Maturity payments on life insurance;
- Legal damages;
- Lump sum compensation for injuries;
- Other casualty claims (including worker's compensation);
- Lump sum termination payments;

ANA includes lump sum termination payments as part of wages & salaries. Worker's compensation claims paid to employees are included in supplements.

SNA93 treats termination payments as employee social benefits in the Secondary Distribution of Income Account.

- Lottery and other gambling winnings.

Winnings from lotteries and other gambling contribute negatively to final consumption expenditure on this item.

Winnings from lotteries and other gambling are treated as transfers between households rather than from a private institution to a household.

Transfers from government comprise investment grants (for unincorporated enterprises).

ANA includes capital grants to NPISHs.

Same as ICW - NPISHs form a separate sector.

### **Capital transfers outlaid** (see paragraph 13.6)

Cash or in-kind transfers financed out of capital stocks rather than current income involving the transfer of ownership of an asset. Generally one-off or infrequent and relatively large amounts.

Similar in principle regarding transfer of financial assets but ANA doesn't recognise ownership of non-financial assets for households so transfers of same are treated as final consumption expenditure (by the purchaser not the recipient).

Same regarding financial assets but does not recognise ownership of non-financial assets (except in satellite accounts) by private households. Transfers of non-financial assets are treated as final consumption expenditure by the household which makes the transfer rather than the recipient.

Includes:

- Donations to charities
- Gifts to other households
- Other property or lump sum settlements.

### Net acquisition of non-financial assets (see Chapter 14)

The acquisition (through purchase or transfer) minus the disposal (through sale or transfer) of non-financial assets held by the household and unincorporated enterprises owned by the household.

No equivalent concept in ANA. Partly covered by gross fixed capital expenditure and net purchase of land and intangible assets. But these concepts are not applied to private households.

Covered in the Capital Account by four items:

- Gross fixed capital formation
  - Changes in inventories
  - Acquisitions less disposals of valuables
  - Acquisitions less disposals of non-produced, non-financial assets
- However these concepts are not applied to private households.

Net acquisition of non-financial assets is classified according to nature of assets:

- Owner occupied dwellings (including land);
- Other buildings and land;
- Household consumer durables;
- Plant, machinery and stock (for unincorporated enterprises);
- Valuables;
- Intangible, non-produced assets.

### Net lending (see Chapter 15)

Excess of net acquisitions of financial assets over the net incurrence of financial liabilities.

Same in principle.

Net lending/borrowing is a balancing item in the Capital Account. Financial transactions are dealt with in the Financial Account where net incurrence of liabilities less net acquisition of financial assets is equal in value, with the opposite sign, to net lending/ borrowing.

Financial assets include:

- Cash holdings
- Deposits in financial institutions and loans to other households;
- Securities (shares, stocks and bonds);
- Loans to other entities;
- Equity in life insurance reserves and pension funds.

ANA does not recognise financial transactions between private households.

Liabilities include principal owing on:

- Mortgage(s) on owner-occupied dwelling;
- Other mortgages;
- Other loans
- Other debts and liabilities.

---

**TABLE 4: OTHER CHANGES IN STOCKS ACCOUNT COMPONENTS**

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ICW	ANA	SNA93
<p>The other changes in stocks account deals with non-transactional changes in the value of assets and liabilities. Covers nominal holding gains/losses and other volume changes.</p> <p>Other changes in the volume of stocks are classified as deriving from:</p> <ul style="list-style-type: none"> <li>• catastrophic events</li> <li>• uncompensated seizures</li> <li>• other</li> </ul>	Excluded	<p>Revaluation Account records positive or negative holding gains.</p> <p>Other Changes in Assets Account records changes in assets, liabilities and net worth that are due neither holding gains/losses or to transactions.</p>
<p><b>Nominal holding gains and losses</b> (see Chapter 17)</p>		
Defined as increases or decreases in the monetary value of assets during the reference period that are not brought about by changes in the quantity or quality of the assets. Commonly referred to as capital gains or losses, they may be realised or unrealised.	Same in principle and would be included as a balancing item in the balance sheets which have not been operationalised to date.	Same in principle.
<p><b>Notional wealth annuity</b> (see Chapter 18)</p>		
Defined as the transformation of the value of a households stock of assets/liabilities into a right to be paid a (notional) fixed annual sum of money for a defined lifetime.	No equivalent concept in ANA.	No equivalent concept in SNA93.

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## Appendix 2. Table A - the ICW accounts

[Contents >> Appendix 2. Table A - the ICW accounts](#)

### Table A - the ICW accounts

The attachment, Table A in the original publication, has been broken into a series of tables in this electronic version to facilitate on-screen presentation. The tables are:

**Table 1: The Current Account**

**Table 2: The Capital Account**

**Table 3: The Other Changes In Stocks Account**

#### TABLE 1: THE CURRENT ACCOUNT

##### Receipts

##### 1. Primary income

- employee income
- entrepreneurial income

##### 2. Property income

- interest
- dividends
- rent

- royalties
- income on employee equity in pension funds
- other property income
- 3. Transfer income**
- social security cash pensions, benefits and allowances
- other pension and life assurance annuity benefits
- social security in-kind concessions
- other government in-kind transfers
- other current transfers
- 4. Other non-market income**
- value of unpaid household work
- imputed rent from owner-occupied dwelling
- imputed rent from owner-occupied dwelling
- 5. Total household income**
- 7. Net disposable income (after taxes)**

### **Disbursements**

- 6. Direct taxes, compulsory fees and fines**
  - direct taxes
  - compulsory fees and fines
  - 8. Consumption**
  - final consumption expenditure
  - consumption of in-kind receipts from outside the household
  - consumption of goods and services provided from within the household
  - current transfers outlaid (excluding direct taxes, fees and fines)
  - 9. Saving**
- 

### **TABLE 2: THE CAPITAL ACCOUNT**

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#### **Net receipts**

- 9. Saving**
- 10. Depreciation allowance**
- 11. Net capital transfers received**
- capital transfers received
- capital transfers outlaid

#### **Net disbursements**

- 12. Net acquisition of non-financial assets**
  - 13. Net lending**
- 

### **TABLE 3: THE OTHER CHANGES IN STOCKS ACCOUNT**

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#### **Other changes in volume**

- 14. Non-financial assets**
- 15. Financial assets**
- 16. Liabilities**

#### **Nominal holding gains/losses**

- 17. Non-financial assets**
- 18. Financial assets**

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## Appendix 3. Bibliography

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